

CTS CORP  
Form 10-Q  
July 29, 2014  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended June 29, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**35-0225010**  
**(IRS Employer**  
**Identification Number)**

**905 West Boulevard North, Elkhart, IN**  
**(Address of principal executive offices)**

**46514**  
**(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  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  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   
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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 23, 2014:  
33,605,189

**Table of Contents**

CTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Earnings (Loss) - Unaudited</u>	3
- For the Three and Six Months Ended June 29, 2014 and June 30, 2013	
<u>Condensed Consolidated Statements of Comprehensive Earnings (Loss) - Unaudited</u>	4
- For the Three and Six Months Ended June 29, 2014 and June 30, 2013	
<u>Condensed Consolidated Balance Sheets</u>	5
- As of June 29, 2014 and December 31, 2013	
<u>Condensed Consolidated Statements of Cash Flows - Unaudited</u>	6
- For the Six Months Ended June 29, 2014 and June 30, 2013	
<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 6. <u>Exhibits</u>	30
<b><u>SIGNATURES</u></b>	31

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CTS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) - UNAUDITED***(In thousands, except per share amounts)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Net sales	\$ 102,980	\$ 105,381	\$ 203,686	\$ 203,443
Costs and expenses:				
Cost of goods sold	69,157	72,981	139,248	144,257
Selling, general and administrative expenses	15,813	17,157	29,454	34,833
Research and development expenses	5,332	5,771	10,958	12,023
Restructuring and impairment charges	2,733	7,029	3,236	7,206
Operating earnings	9,945	2,443	20,790	5,124
Other (expense)/income:				
Interest expense	(582)	(1,058)	(1,195)	(1,964)
Interest income	688	446	1,252	859
Other	(409)	398	(2,180)	(109)
Total other expense	(303)	(214)	(2,123)	(1,214)
Earnings from continuing operations before taxes	9,642	2,229	18,667	3,910
Income tax expense	3,281	12,482	7,226	11,176
Earnings (loss) from continuing operations	6,361	(10,253)	11,441	(7,266)
Discontinued operations				
Loss from discontinued operations, net of tax		(1,082)		(501)
Net earnings (loss)	\$ 6,361	\$ (11,335)	\$ 11,441	\$ (7,767)
Net earnings (loss) per share				
Basic				
Continuing operations	0.19	(0.31)	0.34	(0.22)
Discontinued operations		(0.03)		(0.01)
Basic net earnings per share	\$ 0.19	\$ (0.34)	\$ 0.34	\$ (0.23)

Edgar Filing: CTS CORP - Form 10-Q

Diluted				
Continuing operations	0.19	(0.31)	0.33	(0.22)
Discontinued operations		(0.03)		(0.01)
Diluted net earnings per share	\$ 0.19	\$ (0.34)	\$ 0.33	\$ (0.23)
Cash dividends declared per share	\$ 0.040	\$ 0.035	\$ 0.080	\$ 0.070
Average common shares outstanding:				
Basic	33,741	33,589	33,725	33,556
Diluted	34,208	33,589	34,244	33,556

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****CTS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS) -  
UNAUDITED***(In thousands of dollars)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Net earnings/(loss)	\$ 6,361	\$ (11,335)	\$ 11,441	\$ (7,767)
Other comprehensive earnings/(loss):				
Cumulative translation adjustment, 2014 net of tax benefit of \$228 and \$299; 2013 net of tax benefit of \$71 and net of tax \$463	617	231	821	(1,510)
Defined benefit and post-retirement benefit plans:				
Amortization of prior service cost included in net periodic pension costs, 2014 net of tax of \$0 and \$0; 2013 net of tax of \$59 and \$118		91		182
Amortization of loss included in net periodic pension costs, 2014 net of tax of \$507 and \$1,043; 2013 net of tax of \$774 and \$1,548	889	1,245	1,786	2,490
Settlements included in net earnings, 2014 net of tax of \$66 and \$66; 2013 net of tax of \$0 and \$0	106		106	
Foreign exchange impact, 2014 net of tax benefit of \$37 and \$37; 2013 net of tax benefit of \$2 and net of tax of \$72	(108)	(5)	(91)	202
Reclassification adjustments included in net earnings defined benefit and post-retirement benefit plans	887	1,331	1,801	2,874
Unrealized (loss) gain on interest swaps treated as cash flow hedges:				
Unrealized holding (loss) gain arising during period, 2014 net of tax benefit of \$136 and \$157; 2013 net of tax of \$298 and \$312	(222)	467	(255)	489
Reclassification adjustments for losses included in net earnings, 2014 net of tax of \$47 and \$92; 2013 net of tax of \$31 and \$61	75	47	148	94
Net change in unrealized holding (loss) gain on interest rate swaps	(147)	514	(107)	583

Edgar Filing: CTS CORP - Form 10-Q

Other comprehensive earnings	1,357	2,076	2,515	1,947
Comprehensive earnings (loss)	\$ 7,718	\$ (9,259)	\$ 13,956	\$ (5,820)

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**CTS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(In thousands of dollars except share amounts)*

	(Unaudited) June 29, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 127,230	\$ 124,368
Accounts receivable, net	61,080	62,667
Inventories, net	28,434	32,226
Other current assets	18,828	17,008
<b>Total current assets</b>	<b>235,572</b>	<b>236,269</b>
Property, plant and equipment, net	74,430	74,869
Other Assets		
Prepaid pension asset	62,992	56,396
Goodwill	32,047	32,047
Indefinite-lived intangible asset	690	690
Other intangible assets, net	38,013	40,092
Deferred income taxes	34,744	38,620
Other	1,143	1,282
<b>Total other assets</b>	<b>169,629</b>	<b>169,127</b>
<b>Total Assets</b>	<b>\$ 479,631</b>	<b>\$ 480,265</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 43,724	\$ 47,052
Accrued payroll and benefits	15,881	20,822
Other accrued liabilities	25,693	27,246
<b>Total current liabilities</b>	<b>85,298</b>	<b>95,120</b>
Long-term debt	76,200	75,000
Other long-term obligations	12,888	13,416
Shareholders Equity		
Preferred stock		
Common stock	299,748	297,164
Additional contributed capital	38,037	39,631
Retained earnings	367,740	358,997
Accumulated other comprehensive loss	(79,382)	(81,897)



Treasury stock	626,143 (320,898)	613,895 (317,166)
Total shareholders' equity	305,245	296,729
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 479,631</b>	<b>\$ 480,265</b>

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## CTS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

*(In thousands of dollars)*

	<b>Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings (loss)	\$ 11,441	\$ (7,767)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,401	11,356
Prepaid pension asset	(4,208)	(739)
Gain on sale of fixed assets	(1,855)	(142)
Equity-based compensation	1,179	2,481
Restructuring charges	3,158	4,749
Restructuring impairment charges	78	3,053
Amortization of retirement benefit adjustments	2,906	4,336
Changes in assets and liabilities, net of acquisition		
Accounts receivable	1,346	(5,304)
Inventories	3,632	(3,782)
Other current assets	(1,807)	(416)
Accounts payable	(3,145)	3,186
Accrued liabilities	(10,864)	(5,075)
Income tax payable	(357)	(1,348)
Other	151	