

CTS CORP  
Form 10-Q  
April 28, 2010

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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 April 4, 2010

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.

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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 April 26, 2010:  
33,980,081.

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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/(LOSS) - UNAUDITED  
(In thousands, except per share amounts)

	Three Months Ended	
	April 4, 2010	March 29, 2009
Net sales	\$129,403	\$118,131
Costs and expenses:		
Cost of goods sold	98,924	98,302
Selling, general, and administrative expenses	19,549	16,620
Research and development expenses	4,583	3,353
Restructuring charge – Note I	—	2,243
Goodwill impairment – Note L	—	33,153
Operating earnings/(loss)	6,347	(35,540 )
Other (expense)/income:		
Interest expense	(235 )	(888 )
Interest income	53	70
Other	(484 )	(321 )
Total other expense	(666 )	(1,139 )
Earnings/(loss) before income taxes	5,681	(36,679 )
Income tax expense/(benefit)	1,250	(1,030 )
Net earnings/(loss)	\$4,431	\$(35,649 )
Net earnings/(loss) per share - Note J		
Basic	\$0.13	\$(1.06 )
Diluted	\$0.13	\$(1.06 )
Cash dividends declared per share	\$0.03	\$0.03
Average common shares outstanding:		
Basic	33,955	33,744
Diluted	34,749	33,744

See notes to unaudited condensed consolidated financial statements.



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

	April 4, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 58,764	\$ 51,167
Accounts receivable, less allowances (2010 - \$2,459; 2009- \$2,119)	74,073	71,718
Inventories, net - Note D	60,000	54,348
Other current assets	18,004	16,502
Total current assets	210,841	193,735
Property, plant and equipment, less accumulated depreciation (2010 - \$263,578; 2009 - \$264,651)	78,600	81,120
Other Assets		
Prepaid pension asset	31,198	29,373
Goodwill – Note L	500	500
Other intangible assets, net – Note L	33,305	33,938
Deferred income taxes	67,543	68,331
Other	452	660
Total other assets	132,998	132,802
Total Assets	\$ 422,439	\$ 407,657
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 59,531	\$ 52,344
Accrued liabilities	36,697	38,172
Total current liabilities	96,228	90,516
Long-term debt - Note E	56,000	50,400
Other long-term obligations	19,016	19,287
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock - authorized 75,000,000 shares without par value; 54,300,840 shares issued at April 4, 2010 and 54,213,931 shares issued at December 31, 2009	283,576	282,491
Additional contributed capital	37,623	37,675
Retained earnings	320,994	317,582
Accumulated other comprehensive loss	(93,989)	(93,285)
	548,204	544,463
Cost of common stock held in treasury (2010 and 2009 – 20,320,759 shares)	(297,009)	(297,009)
Total shareholders' equity	251,195	247,454
Total Liabilities and Shareholders' Equity	\$ 422,439	\$ 407,657

See notes to unaudited condensed consolidated financial statements.



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

	Three Months Ended	
	April 4, 2010	March 29, 2009
Cash flows from operating activities:		
Net earnings/(loss)	\$4,431	\$(35,649 )
Adjustments to reconcile net earnings/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	4,351	5,265
Prepaid pension asset	(1,826 )	(1,951 )
Equity-based compensation – Note B	1,261	943
Restructuring and impairment charges – Note I	—	2,243
Goodwill impairment – Note L	—	33,153
Amortization of retirement benefit adjustments – Note F	1,356	1,322
Other	(715 )	(80 )
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	(2,383 )	17,326
Inventories	(5,686 )	315
Other current assets	(1,506 )	(1,732 )
Accounts payable and accrued liabilities	6,045	(25,157 )
Total adjustments	897	31,647
Net cash provided by/(used in) operating activities	5,328	(4,002 )
Cash flows from investing activities:		
Earnout payment related to a 2008 acquisition	(500 )	—
Capital expenditures	(1,533 )	(1,425 )
Proceeds from sales of assets	155	198
Net cash used in investing activities	(1,878 )	(1,227 )
Cash flows from financing activities:		
Payments of long-term debt – Note E	(762,300 )	(615,800 )
Proceeds from borrowings of long-term debt – Note E	767,900	621,300
Payments of short-term notes payable	(430 )	(4,672 )
Proceeds from borrowings of short-term notes payable	430	4,869
Dividends paid	(1,019 )	(1,012 )
Exercise of stock options	92	—
Other	(144 )	(17 )
Net cash provided by financing activities	4,529	4,668
Effect of exchange rate on cash and cash equivalents	(382 )	555
Net increase/(decrease) in cash and cash equivalents	7,597	(6 )



Cash and cash equivalents at beginning of year	51,167	44,628
Cash and cash equivalents at end of period	\$58,764	\$44,622
Supplemental cash flow information		
Cash paid during the period for:		
Interest	\$217	\$271
Income taxes - net	\$978	\$1,946

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	April 4, 2010	March 29, 2009
Net earnings/(loss)	\$ 4,431	\$ (35,649)
Other comprehensive earnings/(loss):		
Cumulative translation adjustment	(1,433)	28
Amortization of retirement benefit adjustments (net of tax)	729	814
Comprehensive earnings/(loss)	\$ 3,727	\$ (34,807)

See notes to unaudited condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
April 4, 2010

## 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, 2009.

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 April 4, 2010, 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 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 allowed 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/(loss) for the three months ended April 4, 2010 and March 29, 2009 relating to these plans:

(\$ in thousands)	April 4, 2010	March 29, 2009
Stock options	\$2	\$19
Restricted stock units	1,259	