

CTS CORP  
Form 10-K  
February 25, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Fiscal Year Ended December 31, 2012

OR

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

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

**46514**  
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**

Common stock, without par value

Securities registered pursuant to Section 12(g) of the Act: None

**Name of Each Exchange on Which Registered**

New York Stock Exchange

## Edgar Filing: CTS CORP - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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 for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions 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  Smaller reporting company

(Do not check if 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

The aggregate market value of the voting and non-voting stock held by non-affiliates of CTS Corporation, based upon the closing sales price of CTS common stock on June 29, 2012, was approximately \$319 million. There were 33,610,806 shares of common stock, without par value, outstanding on February 14, 2013.

### **DOCUMENTS INCORPORATED BY REFERENCE**

- (1) Portions of the 2012 Annual Report to Shareholders are incorporated herein by reference in Part II.
- (2) Portions of the Proxy Statement to be filed for the annual meeting of shareholders to be held on or about May 22, 2013 are incorporated by reference in Part III.

## TABLE OF CONTENTS

ITEM		PAGE
	<b><u>PART I</u></b>	
1.	<u>Business</u>	2
1A.	<u>Risk Factors</u>	8
1B.	<u>Unresolved Staff Comments</u>	16
2.	<u>Properties</u>	17
3.	<u>Legal Proceedings</u>	18
4.	<u>Mine Safety Disclosures</u>	18
	<b><u>PART II</u></b>	
5.	<u>Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	19
6.	<u>Selected Financial Data</u>	20
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
8.	<u>Financial Statements and Supplementary Data</u>	21
9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	21
9A.	<u>Controls and Procedures</u>	22
9B.	<u>Other Information</u>	22
	<b><u>PART III</u></b>	
10.	<u>Directors, Executive Officers and Corporate Governance</u>	23
11.	<u>Executive Compensation</u>	23
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	23
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	23
14.	<u>Principal Accountant Fees and Services</u>	23
	<b><u>PART IV</u></b>	
15.	<u>Exhibits and Financial Statements Schedules</u>	24
	<u>SIGNATURES</u>	27

*Forward-Looking Statements*

This document contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events, and any other statements that are not based solely on historical fact. Forward-looking statements are based on management's expectations, certain assumptions and currently available information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from those presented in the forward-looking statements. Examples of factors that may affect future operating results and financial condition include, but are not limited to: changes in the economy generally and in respect to the businesses in which CTS operates; unanticipated issues in integrating acquisitions; 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 disasters or other events; 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 this Annual Report on Form 10-K. 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.

## PART I

### **Item 1. Business**

CTS Corporation (CTS, we, our, us or the Company) is a global manufacturer of electronic components and sensors and a supplier of electronic manufacturing services. CTS was established in 1896 as a provider of high-quality telephone products and was incorporated as an Indiana corporation in February 1929. Our principal executive offices are located in Elkhart, Indiana.

We design, manufacture, assemble, and sell a broad line of electronic components and sensors and provide electronics manufacturing services primarily to original equipment manufacturers (OEMs) for the automotive, communications, defense and aerospace, medical, industrial and computer markets. We operate manufacturing facilities located throughout North America, Asia and Europe and serve major markets globally. Sales and marketing are accomplished through our sales engineers, independent manufacturers' representatives and distributors.

### **SEGMENTS AND PRODUCTS BY MAJOR MARKETS**

We have two reportable segments: 1) Components and Sensors and 2) Electronics Manufacturing Services (EMS).

Components and sensors are products that 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; components used in computer and other high-speed applications, switches, resistor networks, and potentiometers used to serve multiple markets; and fabricated piezoelectric materials and substrates used primarily in medical, industrial defense and aerospace and computer markets.

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, we provide full turnkey manufacturing and completion including design, supply chain management, logistics, and repair. Products from the EMS segment are principally sold in the communications, defense and aerospace, industrial, medical, and computer OEM markets. Other smaller markets include OEM customers in consumer electronics, instruments and controls, and networking.

Edgar Filing: CTS CORP - Form 10-K

The following tables provide a breakdown of net sales by segment and market as a percent of consolidated net sales:

(As a % of consolidated net sales)	Components & Sensors			EMS			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>Markets</b>									
Automotive	32%	29%	32%	%	%	%	32%	29%	32%
Communications	5%	6%	7%	13%	16%	16%	18%	22%	23%
Computer	3%	1%	2%	%	2%	2%	3%	3%	4%
Medical	2%	2%	2%	5%	5%	5%	7%	7%	7%
Industrial	7%	6%	5%	17%	13%	10%	24%	19%	15%
Defense and Aerospace	2%	2%	2%	12%	17%	15%	14%	19%	17%
Other	2%	1%	1%	%	%	1%	2%	1%	2%
% of consolidated net sales	53%	47%	51%	47%	53%	49%	100%	100%	100%

Net sales to external customers, segment operating earnings, total assets by segment, net sales by geographic area and long-lived assets by geographic area are contained in Note L, Segments, appearing in the notes to the consolidated financial statements as noted in the Index appearing under Item 15(a)(1) and (2), which is incorporated herein by reference.

The following table identifies major products by their segment and markets. Many products are sold in several OEM markets:

Product Description	Automotive Market	Communications Market	Computer Market	Medical Market	Industrial Market	Defense and Aerospace Market	Other Markets
<b>Components and Sensors:</b>							
Ceramic Filters and Duplexers							
Quartz Crystals, Clocks, Precision Oscillators and Frequency Modules							
Sensors and Actuators							
Resistor Networks							
DIP Switches and Potentiometers							
Piezoelectric and Piezoceramics Products							
Electromagnetic Interference and Radio Frequency Interference Filters							
<b>EMS:</b>							
Integrated Interconnect Systems and Backpanels, including Final Assembly and Test							
Complex Printed Circuit Board Assemblies							



---

## **MARKETING AND DISTRIBUTION**

Sales and marketing to OEMs, for both segments, is accomplished through our sales engineers, independent manufacturers' representatives, and distributors. We maintain sales offices in China, Japan, Scotland, Singapore, India, Taiwan, and the United States. Approximately 82% of 2012 net sales were attributable to our sales engineers.

Our sales engineers generally service the largest customers with application-specific products. The sales engineers work closely with major customers in designing and developing products to meet specific customer requirements.

We utilize the services of independent manufacturers' representatives in the United States and other countries for customers not serviced directly by our sales engineers for both of our segments. Independent manufacturers' representatives receive commissions from CTS. During 2012, approximately 15% of net sales were attributable to independent manufacturers' representatives. We also use independent distributors in our Components and Sensors segment. Independent distributors purchase component and sensor products from CTS for resale to customers. In 2012, independent distributors accounted for approximately 3% of net sales.

## **RAW MATERIALS**

We utilize a wide variety of raw materials and purchased parts in our manufacturing processes. The following are the most significant raw materials and purchased components, identified by segment:

**Components and Sensors:** Conductive inks and contactor, passive electronic components, integrated circuits and semiconductors, certain rare earth elements ( REEs ), ceramic components, plastic components, molding compounds, printed circuit boards and assemblies, quartz blanks and crystals, wire harness assemblies, copper, brass, and steel-based raw materials and components.

**EMS:** Power supplies and converters, prefabricated steel, printed circuit boards, passive electronic components and semiconductors, integrated circuits, connectors, cables, and modules.

These raw materials are purchased from several vendors, and, except for certain semiconductors, REEs, and conductive inks, we do not believe we are dependent upon one or a limited number of vendors. Although we purchase all of our semiconductors, REEs, and conductive inks from a limited number of vendors, alternative sources are available. During 2012, the global demand for certain REEs that we purchase exceeded the global supply. However, this REEs demand/supply imbalance did not have a material impact on our financial results for the year ended December 31, 2012.

We do not currently anticipate any significant raw material shortages that would slow production. However, the lead times between the placement of orders for certain raw materials and purchased parts and actual delivery to us may vary. Occasionally we may need to order raw materials in greater quantities and at higher-than-optimal prices to compensate for the variability of lead times for delivery.

Precious metal and REE prices may have a significant effect on the cost and selling price of many of our products, particularly some ceramic filters, sensors, actuators, resistor networks, and switches.

## **PATENTS, TRADEMARKS, AND LICENSES**

We maintain a program of obtaining and protecting U.S. and non-U.S. patents relating to products that we have designed and manufactured, as well as processes and equipment used in our manufacturing technology. We were issued eight new U.S. patents and 31 non-U.S. patents in 2012 and currently hold 174 U.S. patents and 139 non-U.S. patents. Patents have a greater impact on the Components and Sensors segment than on the EMS segment, which does not rely significantly on any patent. We have 10 registered U.S. trademarks, 26 foreign trademarks and two international trademark registrations. We have licensed the right to use several of our patents to both U.S. and non-U.S. companies. In 2012, license and royalty income was less than 1% of net sales.

## MAJOR CUSTOMERS

Our 15 largest customers represented 50% of net sales in 2012 and 48% of net sales in 2011 and 2010. No single customer represented more than 10% of net sales in 2012, 2011 or 2010.

The Company continues to broaden its customer base. Changes in the level of our customers' orders have, in the past, had a significant impact on our operating results. If a major customer reduces the amount of business it does with us, or substantially changes the terms of that business, there could be an adverse impact on our operating results.

Additionally, we expect to continue to depend on sales to our major customers. Because our customers are under no obligation to continue to do business with us on a long-term basis, there is always the possibility that one or more customers may choose to work with a competitor and reduce their business with us. Customers may also reduce or delay their business with us because of economic or other conditions or decisions that reduce their need for our products or services. Since it is difficult to replace lost business on a timely basis, it is likely that our operating results would be adversely affected if one or more of our major customers were to cancel, delay, or reduce a large amount of business with us in the future. If one or more of our customers were to become insolvent or otherwise unable to pay for our products and/or services, our operating results, financial condition, and cash flows could be adversely affected.

## ORDER BACKLOG

Order backlog may not provide an accurate indication of present or future revenue levels for the Company. For many Components and Sensors and EMS products, the period between receipt of orders and expected delivery is relatively short. Additionally, large orders from major customers may include backlog covering an extended period of time. Production scheduling and delivery for these orders could be changed or canceled by the customer on relatively short notice.

The following table shows order backlog by segment and in total as of January 27, 2013, and January 29, 2012.

(\$ in millions)	January 27, 2013	January 29, 2012
Components and Sensors	\$ 49.8	\$ 40.6
EMS	73.5	84.0
<b>Total</b>	<b>\$ 123.3</b>	<b>\$ 124.6</b>

Order backlog as of the January month-end will generally be filled during the same fiscal year.

## COMPETITION

In the Components and Sensors segment, we compete with many U.S. and non-U.S. manufacturers principally on the basis of product features, price, technology, quality, reliability, delivery, and service. Most of our product lines encounter significant global competition. The number of significant competitors varies from product line to product line. No one competitor competes with us in every product line, but many competitors are larger and more diversified than CTS. Some competitors are also our customers for Components and Sensors and EMS products.

In the EMS segment, we compete with a number of well-established U.S. and non-U.S. manufacturers on the basis of process capability, price, technology, quality, reliability, and delivery in the markets in which we participate. Some of our competitors have greater manufacturing and financial resources than CTS. However, we generally do not pursue extremely high volume or highly price-sensitive business, as some of our larger competitors do.



In both the Components and Sensors and EMS segments, some customers have reduced or plan to reduce their number of suppliers, while increasing the volume of their purchases. Most customers are demanding higher quality, reliability, and delivery standards from us as well as our competitors. These trends create opportunities for us, but also increase the risk of loss of business to competitors. We are subject to competitive risks that represent the nature of the electronics industry, including short product life cycles and technical obsolescence.

We believe we compete most successfully in custom products manufactured to meet specific applications of major OEMs and with EMS products oriented toward high mix and low-to-medium volume outsourcing needs of OEMs.

### **NON-U.S. REVENUES**

In 2012 and 2011, 37% of net sales to external customers originated from non-U.S. operations compared to 44% in 2010. At December 31, 2012 approximately 41% of total assets were located at non-U.S. operations. At December 31, 2011 and 2010 total assets that were located at non-US operations were 44%, and 40%, respectively. A substantial portion of these assets, other than cash and cash equivalents, cannot readily be liquidated. We believe the business risks to our non-U.S. operations, though substantial, are normal risks for global businesses. These risks include currency controls and changes in currency exchange rates, longer collection cycles, political and transportation risks, economic downturns and inflation, government regulations and expropriation. Our non-U.S. manufacturing facilities are located in Canada, China, Czech Republic, India, Mexico, Scotland, Singapore, Taiwan, and Thailand.

Net sales to external customers originating from non-U.S. operations for the Components and Sensors segment were \$181.5 million in 2012 compared to \$193.3 million in 2011, and \$202.2 million in 2010. Net sales to external customers originating from non-U.S. operations for the EMS segment were \$34.1 million in 2012, compared to \$27.2 million in 2011, and \$39.9 million in 2010. Additional information about net sales to external customers, operating earnings and total assets by segment, and net sales by geographic area and long-lived assets by geographic area, is contained in Note L, Segments, appearing in the notes to the consolidated financial statements as noted in the Index appearing under Item 15 (a) (1) and (2), which is incorporated herein by reference.

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

In 2012, we spent \$20.9 million for research and development activities compared to \$20.0 million in 2011 and \$18.3 million in 2010. Ongoing research and development activity in the Components and Sensors segment is primarily focused on expanded applications and new product development, as well as current product and process enhancements. Research and development expenditures in the EMS segment are typically very low.

We believe a strong commitment to research and development is required for future growth in the Components and Sensors segment. Most of our research and development activities relate to developing new, innovative products and technologies, improving product flow, and adding product value to meet the current and future needs of our customers. We provide our customers with full systems support to ensure quality and reliability through all phases of design, launch, and manufacturing to meet or exceed customer requirements. Many such research and development activities benefit one or a limited number of customers or potential customers. All research and development costs are expensed as incurred.

### **EMPLOYEES**

We employed 4,264 people at December 31, 2012, with 67.0% of these people located outside the United States. Approximately 185 CTS employees at one location in the United States were covered by two collective bargaining agreements as of December 31, 2012. One agreement, which covers 153 employees, is scheduled to expire in 2015 and the other, which covers 32 employees, is scheduled to expire in 2013. We employed 4,234 people at December 31, 2011.

## ADDITIONAL INFORMATION

We are incorporated in the State of Indiana. Our principal corporate office is located at 905 West Boulevard North, Elkhart, Indiana 46514.

Our internet address is <http://www.ctscorp.com>. We make available free of charge through our internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ( SEC ). The information contained on or accessible through our internet website is not part of this or any other report we file or furnish to the SEC, other than the documents that we file with the SEC that are incorporated by reference herein.

Further, a copy of this annual report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at <http://www.sec.gov>.

## EXECUTIVE OFFICERS OF THE COMPANY

**Executive Officers.** The following serve as executive officers of CTS as of February 25, 2013. The executive officers are expected to serve until the next annual meeting of the Board of Directors, scheduled to be held on or about May 22, 2013, at which time the election of officers will be considered again by the Board of Directors.

Name	Age	Positions and Offices
Vinod M. Khilnani	60	Executive Chairman of the Board
Kieran M. O Sullivan	50	President and Chief Executive Officer
Thomas A. Kroll	58	Vice President and Chief Financial Officer
John R. Dudek	54	Vice President, General Counsel and Corporate Secretary
Scott A. Bowmar	53	Vice President, Human Resources
Dennis P. Thornton	51	Senior Vice President and General Manager of CTS Electronic Manufacturing Solutions
Lawrence J. Lyng	56	Vice President and General Manager of CTS Automotive Products
Ashish Agrawal	42	Vice President, Treasury and Corporate Development

**Vinod M. Khilnani** 60 Executive Chairman of the Board of Directors as of January 7, 2013. Mr. Khilnani joined CTS in May 2001 as Senior Vice President and Chief Financial Officer. In July 2007, he was elected President and appointed Chief Executive Officer. He was appointed Chairman of the Board of Directors in May of 2009.

**Kieran O Sullivan** 50 President and Chief Executive Officer joined CTS on January 7, 2013. Prior to this, Mr. O Sullivan served as Executive Vice President of Continental AG's Global Infotainment and Connectivity Business and led the NAFTA Interior Division, having joined Continental AG, a global automotive supplier, in 2006.

**Thomas A. Kroll** 58 Vice President and Chief Financial Officer. Mr. Kroll was named Vice President and Chief Financial Officer on September 1, 2011. Mr. Kroll was elected Vice President and Controller on October 31, 2002. Prior to this, Mr. Kroll served as Controller Group Accounting since joining CTS in November 2000.

**John R. Dudek** 54 Vice President, General Counsel and Corporate Secretary was elected to this office in May 2012. Mr. Dudek started with CTS as Vice President, General Counsel and Assistant Secretary in April 2012. Prior to this, Mr. Dudek was with Steinway Musical Instruments, Inc., a manufacturer of musical instruments, as Associate General Counsel & Secretary since 2003.

**Scott A. Bowmar** 53 Vice President, Human Resources Mr. Bowmar started with CTS in August 2012 as Vice President, Human Resources. Prior to this, Mr. Bowmar was with Harman International Industries, a premium audio and infotainment solutions company, serving as Vice President, Human Resources for the Professional Division, since 1984.

**Dennis P. Thornton** 51 was elected Senior Vice President and General Manager of CTS Electronic Manufacturing Solutions, effective February 1, 2011. Mr. Thornton was elected Vice President of CTS Corporation effective December 3, 2009. Prior to this, Mr. Thornton served as General Manager for our Automotive Products SBU since joining CTS in 2006.

**Lawrence J. Lyng** 56 Vice President was elected Vice President on May 23, 2012. He has been Vice President and General Manager of CTS Automotive Business Unit since February 1, 2011. Mr. Lyng joined CTS in September 2009 as Vice President, Global Sales & Marketing for the Automotive Business Unit. Prior to this, Mr. Lyng served as Group Vice president North America at Valeo, Inc., a Tier 1 supplier of automotive components and systems to the global automotive market.

**Ashish Agrawal** 42 Treasurer and Vice President Corporate Development. Mr. Agrawal joined CTS in June 2011 as Vice President, Treasury and Corporate Development, and was elected to the Treasurer's office on Sept. 1, 2011. Before joining CTS, Mr. Agrawal was with Dometic Corporation, a manufacturer of refrigerators, awnings and air conditioners as Senior Vice President and Chief Financial Officer since 2007.

Information with respect to Directors and Corporate Governance may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

#### **Item 1A. Risk Factors**

The following are certain risk factors that could affect our business, financial condition and operating results. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results and financial condition to differ materially from those projected in the forward-looking statements. Before you invest in us, you should know that making such an investment involves some risks, including the risks described below. The risks that are highlighted below are not the only ones that we face. If any of the following risks actually occur, our business, financial condition or operating results could be negatively affected.

#### **Because we currently derive a significant portion of our revenues from a small number of customers, any decrease in orders from these customers could have an adverse effect on our business, financial condition and operating results.**

We depend on a small number of customers for a large portion of our business, and changes in the level of our customers' orders have, in the past, had a significant impact on our results of operations. Our 15 largest customers represent a substantial portion of our sales: approximately 50% of net sales in 2012 and 48% of net sales in 2011 and 2010. Our largest customer represented less than 10% of our net sales in 2012, 2011 and 2010. If a major customer significantly cancels, delays or reduces the amount of business it does with us, there could be an adverse effect on our business, financial condition and operating results. Such an adverse effect would likely be material if one of our largest customers significantly reduces its amount of business. Significant pricing and margin pressures exerted by a key customer could also materially adversely affect our operating results. In addition, we generate significant accounts receivable from sales to our major customers. If one or more of our largest customers were to become insolvent or otherwise unable to pay or were to delay payment for services, our business, financial condition and operating results could be materially adversely affected.

#### **Negative or unexpected tax consequences could adversely affect our results of operations.**

Adverse changes in the underlying profitability and financial outlook of our operations in several jurisdictions could lead to changes in our valuation allowances against deferred tax assets and other tax accruals that could materially and adversely affect our results of operations.

Several countries in which we are located allow for tax incentives to attract and retain business. These tax incentives expire over various periods and are subject to certain conditions with which we expect to comply. Our taxes could increase if certain tax incentives are not renewed upon expiration, or tax rates applicable to us in such jurisdictions are otherwise increased. In addition, further acquisitions or divestitures may cause our effective tax rate to increase.

We base our tax accounting positions upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax accounting positions are subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes.

**We are subject to intense competition in the EMS industry.**

We compete against many providers of electronics manufacturing services. Some of our competitors have substantially greater manufacturing and financial resources, and in some cases have more geographically diversified international operations than we do. Our competitors, such as Benchmark Electronics, Inc. and Sanmina-SCI Corporation, include both large global EMS providers and smaller EMS companies that often have a regional, product, service or industry specific focus. We also face the risk of losing our current and future OEM customers, which may elect to manufacture their own products internally rather than outsource the manufacturing to EMS providers. In addition, we could face competition in the future from other large global EMS providers, such as Celestica, Inc., Flextronics International Ltd. and Jabil Circuit, Inc., which currently provide services to some of our largest customers for different products, as well as competition from smaller EMS companies such as Plexus Corp. and Ducommun, Inc. We may be at a competitive disadvantage with respect to price when compared to manufacturers with lower cost structures, particularly those with significant offshore facilities located where labor and other costs are lower. Competition may intensify further if more companies enter the markets in which we operate. Our failure to compete effectively could materially adversely affect our business, financial condition and operating results.

**We may be unable to compete effectively against competitors in our Components and Sensors segment.**

The components and sensors industry is highly competitive and characterized by price erosion and rapid technological change. Through our Components and Sensors segment, we compete against many domestic and foreign companies, some of which have substantially greater manufacturing, financial, research and development and marketing resources than we do. If any customer becomes dissatisfied with our prices, quality or timeliness of delivery, among other things, it could award future business or even move existing business to our competitors. Moreover, some of our customers could choose to manufacture and develop particular products themselves rather than purchase them from us. Increased competition could result in price reductions, reduced profit margins and loss of market share, each of which could materially adversely affect our business, financial condition and operating results. These developments also may materially adversely affect our ability to compete against these manufacturers going forward. We cannot assure you that our products will continue to compete successfully with our competitors products, including OEMs, many of which are significantly larger than us and have greater financial and other resources.

**We may be unable to keep pace with rapid technological changes that could make some of our products or processes obsolete before we realize a return on our investment.**

The technologies relating to some of our products have undergone, and are continuing to undergo, rapid and significant changes. Specifically, end markets for electronic components and assemblies are characterized by technological change, frequent new product introductions and enhancements, changes in customer requirements and emerging industry standards. The introduction of products embodying new technologies and the emergence of new industry standards could render our existing products obsolete and unmarketable before we can recover any or all of our research, development and commercialization expenses or capital investments. Furthermore, the life cycles of our products and the products we manufacture for others vary, may change and are difficult to estimate.

We may experience difficulties that could delay or prevent the successful development, introduction and marketing of new products or product enhancements and our new products or product enhancements may not adequately meet the requirements of the marketplace or achieve market acceptance. If we are unable, for technological or other reasons, to develop and market new products or product enhancements in a timely and cost-effective manner, our business, financial condition and operating results could be materially adversely affected.

**Our customers may cancel their orders, change production quantities or locations or delay production.**

We generally do not obtain firm, long-term purchase commitments from our customers, and have often experienced reduced lead times in customer orders. Customers cancel their orders, change production quantities and delay production for a number of reasons. Uncertain economic and geopolitical conditions may result in some of our customers delaying the delivery of some of the products we manufacture for them and placing purchase orders for lower volumes of products than previously anticipated. Cancellations, reductions or delays by a significant customer or by a group of customers may harm our results of operations by reducing the volumes of products we manufacture, as well as by causing a delay in the recovery of our expenditures for inventory in preparation for customer orders and lower asset utilization resulting in lower gross margins.

In addition, customers may require that manufacturing of their products be transitioned from one facility to another to achieve cost and other objectives. Such transfers may result in inefficiencies and costs due to resulting excess capacity and overhead at one facility and capacity constraints and the inability to fulfill all orders at another. In addition, we make significant decisions, including determining the levels of orders that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of our customers' commitments and the changes in demand for their products reduce our ability to estimate accurately future customer requirements. This makes it difficult to schedule production and maximize utilization of our manufacturing capacity. Anticipated orders may not materialize and delivery schedules may be deferred as a result of changes in demand for our products or our customers' products. We often increase staffing and capacity, and incur other expenses to meet the anticipated demand of our customers, which causes reductions in our gross margins if customer orders are delayed or canceled. On occasion, customers require rapid increases in production, which may stress our resources and reduce margins. We may not have sufficient capacity at any given time to meet our customers' demands. In addition, because many of our costs and operating expenses are relatively fixed over the short-term, a reduction in customer demand harms our gross margin and operating income until such time as adjustments can be made to activity or operating levels and structural costs.

**We sell products to customers in cyclical industries that are subject to significant downturns that could materially adversely affect our business, financial condition and operating results.**

We sell products to customers in cyclical industries that have experienced economic and industry downturns. The markets for our automotive products, electronic components and sensors and EMS products have softened in the past and may again soften in the future. We may face reduced end-customer demand, underutilization of our manufacturing capacity, changes in our revenue mix and other factors that could adversely affect our results of operations in the near-term. We cannot predict whether we will achieve profitability in future periods.

**Because we derive a substantial portion of our revenues from customers in the automotive, defense and aerospace, computer and communications industries, we are susceptible to trends and factors affecting those industries.**

Net sales to the automotive, defense and aerospace, computer and communications industries represent a substantial portion of our revenues. Factors negatively affecting these industries and the demand for their products also negatively affect our business, financial condition and operating results. Any adverse occurrence, including among others, industry slowdown, recession, political instability, costly or constraining regulations, budget cuts or reduced government spending, armed hostilities, terrorism, excessive inflation, prolonged disruptions in one or more of our customers' production schedules or labor disturbances, that results in significant decline in the volume of sales in these industries, or in an overall downturn in the business and operations of our customers in these industries, could materially adversely affect our business, financial condition and operating results. Also, the automotive industry is generally highly unionized and some of our customers have, in the past, experienced labor disruptions. Furthermore, the automotive industry is highly cyclical in nature and sensitive to changes in general economic conditions, consumer preferences and interest rates. Some of our automotive customers have required government bailouts and/or have filed for bankruptcy reorganization. The failure of one or more automotive manufacturers that we serve may result in the failure to receive payment in full for products sold and an abrupt cancellation.

in demand for certain products. Weakness in auto demand, the insolvency of automobile manufacturers that we serve or their suppliers, and constriction of credit markets may negatively and materially affect our facility utilization, cost structure, financial condition, and operating results.

**Products we manufacture may contain design or manufacturing defects that could result in reduced demand for our products or services and liability claims against us.**

Despite our quality control and quality assurance efforts, defects may occur in the products we manufacture due to design or manufacturing errors or component failure. Product defects may result in delayed shipments and reduced demand for our products. We may be subject to increased costs due to warranty claims on defective products. Product defects may result in product liability claims against us where defects cause, or are alleged to cause, property damage, bodily injury or death. As we more deeply penetrate the automotive and medical device manufacturing markets, the risk of exposure to products liability litigation increases. We may be required to participate in a recall involving products which are, or are alleged to be, defective. We carry insurance for certain legal matters involving product liability; however, we do not have coverage for all costs related to product defects and the costs of such claims, including costs of defense and settlement, may exceed our available coverage. Accordingly, our results of operations, cash flow and financial position could be adversely affected.

**Toyota's voluntary recall of CTS-manufactured accelerator pedals and associated events has led to claims against CTS and loss of business.**

We manufacture accelerator pedal assemblies for a number of automobile manufacturers, including subsidiaries of Toyota Motor Corporation (Toyota). We have supplied accelerator pedal assemblies to Toyota since the 2005 model year. Sales to Toyota have accounted for approximately 4.0%, 2.9% and 4.0% of our annual revenue for the years ended December 31, 2012, 2011 and 2010, respectively. We manufacture all pedal assemblies to specifications approved by the customer, including Toyota.

In January 2010, Toyota issued a voluntary recall for approximately 2.3 million vehicles in North America containing CTS-manufactured accelerator pedal assemblies. In addition, Toyota temporarily halted production and sale of eight vehicle models using these pedal assembly designs. The recall was issued due to what Toyota described as a rare set of conditions which may cause the accelerator pedal to become harder to depress, slower to return or, in the worst case, stuck in a partially depressed position.

No accidents, injuries, or deaths have been proven directly or proximately to result from slow returning or sticking CTS-manufactured pedals. We are aware that we have been named as a defendant in lawsuits filed in the United States and Canada stemming from allegations of problems with Toyota vehicles, and additional lawsuits may follow.

While Toyota has repeatedly acknowledged that CTS designs products to Toyota's specifications and the recall is Toyota's responsibility, and Toyota has agreed to indemnify us in connection with certain third-party claims and actions, we cannot assure you that Toyota will not seek to recover a portion of their recall-related costs from us, and the insurance we carry may not be sufficient to cover all such costs. We also cannot assure you that the National Highway Transportation Safety Administration or other governmental authorities will not attempt to impose fines and penalties upon us and Toyota or other automobile manufacturers will not reduce their purchase of CTS pedals and other automotive products. Accordingly, our results of operations, cash flow and financial position could be adversely affected.

**We are exposed to fluctuations in foreign currency exchange rates that may adversely affect our business, financial condition and operating results.**

We transact business in various foreign countries. We present our consolidated financial statements in U.S. dollars, but a portion of our revenues and expenditures are transacted in other currencies. As a result, we are exposed to fluctuations in foreign currencies. We have currency exposure arising from both sales and purchases denominated in currencies other than

the U.S. dollar. Volatility in the exchange rates between the foreign currencies and the U.S. dollar could harm our business, financial condition and operating results. Furthermore, to the extent we sell our products in foreign markets, currency fluctuations may result in our products becoming too expensive for foreign customers.

**Our operating results vary significantly from period to period.**

We experience fluctuations in our operating results. Some of the principal factors that contribute to these fluctuations are: changes in demand for our products; our effectiveness in managing manufacturing processes, costs and timing of our component purchases so that components are available when needed for production, while mitigating the risks of purchasing inventory in excess of immediate production needs; the degree to which we are able to utilize our available manufacturing capacity; changes in the cost and availability of components, which often occur in the electronics manufacturing industry and which affect our margins and our ability to meet delivery schedules; general economic and served industry conditions; and local conditions and events that may affect our production volumes, such as labor conditions and political instability.

In addition, due to the significant differences in the operating earnings margins in our two reporting segments, the mix of sales between our Components and Sensors segment and our EMS segment affects our operating results from period to period.

**We face risks relating to our international operations.**

Because we have significant international operations, our operating results and financial condition could be materially adversely affected by economic, political, health, regulatory and other factors existing in foreign countries in which we operate. Our international operations are subject to inherent risks, which may materially adversely affect us, including: political and economic instability in countries in which our products are manufactured; expropriation or the imposition of government controls; changes in government regulations; export license requirements; trade restrictions; earnings repatriation and expatriation restrictions; exposure to different legal standards; less favorable intellectual property laws; health conditions and standards; currency controls; fluctuations in exchange rates; increases in the duties and taxes we pay; high levels of inflation or deflation; greater difficulty in collecting accounts receivable and longer payment cycles; changes in labor conditions and difficulties in staffing and managing our international operations; limitations on insurance coverage against geopolitical risks, natural disasters and business operations; and communication among and management of international operations. In addition, these same factors may also place us at a competitive disadvantage compared to some of our foreign competitors.

In addition, we could be adversely affected by violations of the Foreign Corrupt Practices Act (FCPA) and similar worldwide anti-bribery laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our Code of Ethics mandates compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal controls and procedures always will protect us from the reckless or criminal acts committed by our employees or agents. If we are found to be liable for FCPA violations (either due to our own acts or our inadvertence or due to the acts or inadvertence of others), we could suffer from criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

Furthermore, because a significant portion of our products are manufactured in Asia, including China, Singapore, Thailand and Taiwan, any conflict or uncertainty in these countries, including public health or safety concerns, could have a material adverse effect on our business, financial condition and operating results.

**We may restructure our operations, which may materially adversely affect our business, financial condition and operating results.**

In 2012, we implemented two restructuring plans to realign and consolidate certain operations for the purpose of improving our cost structure. The implementation of these plans resulted in the elimination of approximately 440 positions within our global operations. The implementation was substantially completed by the end of December 2012.

We may incur restructuring and impairment charges in the future if circumstances warrant. If we restructure our operations in the future and are unsuccessful in implementing restructuring plans, we may experience disruptions in our operations and higher ongoing costs, which may materially adversely affect our business, financial condition and operating results.

**Losses in the stock market could negatively impact pension asset returns and ultimately cash flow due to possible required contributions in the future.**

We make a number of assumptions relating to our pension plans in order to measure the financial position of the plans and the net periodic benefit cost. The most significant assumptions relate to the discount rate and the expected long-term return on plan assets. If these assumptions prove to be significantly different from actual rates, then we may need to record additional expense relating to the pension plans, which could have a material adverse effect on our results of operations and could require cash contributions to fund future pension obligation payments.

**We may explore acquisitions that complement or expand our business as well as divestitures of various business operations. We may not be able to complete these transactions, and these transactions, if executed, may pose significant risks and may materially adversely affect our business, financial condition and operating results.**

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer us growth opportunities. We may have difficulty finding these opportunities or, if we do identify these opportunities, we may not be able to complete the transactions for reasons including a failure to secure financing. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. Any transactions that we are able to identify and complete may involve a number of risks, including: the diversion of management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture; possible adverse effects on our operating results during the integration process; difficulties managing and integrating operations in geographically dispersed locations; increases in our expenses and working capital requirements, which reduce our return on invested capital; exposure to unanticipated liabilities of acquired companies; and our possible inability to achieve the intended objectives of the transaction. Even if we are initially successful in integrating a new operation, we may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional debt. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business and operating results.

We have in the past, and may in the future, consider divesting certain business operations. Divestitures may involve a number of risks, including the diversion of management's attention, significant costs and expenses, the loss of customer relationships and cash flow, and the disruption of operations in the affected business. Failure to timely complete or consummate a divestiture may negatively affect valuation of the affected business or result in restructuring charges.

**If we are unable to protect our intellectual property or we infringe, or are alleged to infringe, on another person's intellectual property, our business, financial condition and operating results could be materially adversely affected.**

The success of our business depends, in part, upon our ability to protect trade secrets, copyrights and patents, obtain or license patents and operate without infringing on the intellectual property rights of others. We rely on a combination of trade secrets, copyrights, patents, nondisclosure agreements and technical measures to protect our proprietary rights in our products and technology. The steps we have taken to prevent misappropriation of our technology may be inadequate. In addition, the laws of some foreign countries in which we operate do not protect our proprietary rights to the same extent as do the laws of the United States. Although we continue to evaluate and implement protective measures, there can be no assurance that these efforts will be successful. Our inability to protect our intellectual property rights could diminish or eliminate the competitive advantages that we derive from our technology, cause us to lose sales or otherwise harm our business.



We believe that patents will continue to play an important role in our business. However, there can be no assurance that we will be successful in securing patents for claims in any pending patent application or that any issued patent will provide us with any competitive advantage. We also cannot provide assurance that the patents will not be challenged by third parties or that the patents of others will not materially adversely affect our ability to do business.

We may become involved in litigation in the future to protect our intellectual property or because others may allege that we infringed on their intellectual property. These claims and any resulting lawsuit could subject us to liability for damages and invalidate our intellectual property rights. If an infringement claim is successfully asserted by a holder of intellectual property rights, we may be required to cease marketing or selling certain products, pay a penalty for past infringement and spend significant time and money to develop a non-infringing product or process or to obtain licenses for the technology, process or information from the holder. We may not be successful in the development of a non-infringing alternative, or licenses may not be available on commercially acceptable terms, if at all, in which case we may lose sales and profits. In addition, any litigation could be lengthy and costly and could materially adversely affect us even if we are successful in the litigation.

**We may experience shortages and increased costs of raw material and required electronic components.**

In the past, from time to time, there have been shortages in certain raw materials used in the manufacture of our components and sensors and certain electronic components purchased by us and incorporated into assemblies and subassemblies. Unanticipated raw material or electronic component shortages may prevent us from making scheduled shipments to customers. Our inability to make scheduled shipments could cause us to experience a shortfall in revenue, increase our costs and adversely affect our relationship with affected customers and our reputation as a reliable service provider. We may be required to pay higher prices for raw materials or electronic components in short supply and order these raw materials or electronic components in greater quantities to compensate for variable delivery times. We may also be required to pay higher prices for raw materials or electronic components due to inflationary trends regardless of supply. As a result, raw material or electronic component shortages and price increases could adversely affect our operating results for a particular period due to the resulting revenue shortfall and increased costs.

**Loss of our key management and other personnel, or an inability to attract key management and other personnel, could materially affect our business.**

We depend on our senior executive officers and other key personnel to run our business. We do not have long-term retention contracts with our key personnel. The loss of any of these officers or other key personnel could adversely affect our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is at times intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to conduct research activities successfully and develop marketable products.

**We are subject to a variety of environmental laws and regulations that expose us to potential financial liability.**

Our operations are regulated by a number of federal, state, local and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of these materials. Compliance with environmental laws is a major consideration for us because we use hazardous materials in our manufacturing processes. If we violate environmental laws or regulations, we could be held liable for substantial fines, damages, and costs of remedial actions. Our environmental permits could also be revoked or modified, which could require us to cease or limit production at one or more of our facilities, thereby materially adversely affecting our business, financial condition and operating results. Environmental laws and requirements have generally become more stringent over time and could continue to do so, imposing greater compliance costs and increasing risks and penalties associated with any violation, which also could materially affect our business, financial condition and operating results.

In addition, because we are a generator of hazardous wastes, even if we fully comply with applicable environmental laws and requirements, we may be subject to financial exposure for costs, including costs of investigation and any remediation,

associated with contaminated sites at which hazardous substances from our operations have been stored, treated or disposed of. We may also be subject to exposure for such costs at sites that we currently own or operate or formerly owned or operated. Such exposure may be joint and several, so that we may be held responsible for more than our share of the contamination or even for the entire contamination.

We have been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, generator groups that we are or may be a potentially responsible party regarding hazardous substances at several sites not owned or operated by us, as well as several sites that we own. Although we estimate our potential liability with respect to environmental violations or alleged violations and other environmental liabilities and reserves for such matters, we cannot assure you that our reserves will be sufficient to cover the actual costs that we incur as a result of these matters.

Future events, such as the discovery of additional contamination or other information concerning past releases of hazardous substances at our manufacturing sites (or at sites we have sent wastes for disposal), changes in existing environmental laws or their interpretation, and more rigorous efforts by regulatory authorities, may require additional expenditures by us to modify operations, install pollution control equipment, clean contaminated sites or curtail our operations. These expenditures could have a negative impact on our operations.

In addition, we could be affected by future laws or regulations imposed in response to climate change concerns. Such laws or regulations could have a material adverse effect on our business, financial condition, and results of operation.

**Our indebtedness may adversely affect our financial health.**

As of December 31, 2012, our debt balance was \$153.5 million, consisting of borrowings under our revolving credit facility. The level of our indebtedness could, among other things: increase our vulnerability to general economic and industry conditions, including recessions; require us to use cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures, research and development efforts and other expenses; limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; place us at a competitive disadvantage compared to competitors that have less indebtedness; or limit our ability to borrow additional funds that may be needed to operate and expand our business. Moreover, an increase in interest rates could increase our interest expense.

**Our credit facility contains provisions that could materially restrict our business.**

Our revolving credit facility 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 credit facility 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 the amounts allowed for stock repurchases and dividend payments.

The restrictions contained in our credit facility could limit our ability to plan for or react to market conditions or meet capital needs or could otherwise restrict our activities or business plans. These restrictions could adversely affect our ability to finance our operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that could be in our interests.

Further, our ability to comply with our loan covenants may be affected by events beyond our control and if we breach any of these covenants or restrictions, it could result in an event of default under our credit facility, or documents governing any other existing or future indebtedness. A default, if not cured or waived, may permit acceleration of our indebtedness. In addition, our lenders could terminate their commitments to make further extensions of credit under our credit facility. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds to pay the accelerated indebtedness or that we will have the ability to refinance accelerated indebtedness on terms favorable to us or at all.

**A future flood affecting our Thailand manufacturing facility may cause uninsured losses.**

Due to significant losses incurred by the insurance industry related to the 2011 Thailand flood, flood insurance availability in Thailand is very limited and expensive. After careful evaluation of the amount of coverage available and associated cost, we decided to self-insure for future floods in Thailand. In the event of a future flood that affects our manufacturing facility in Thailand, our business, financial condition or operating results could be negatively impacted.

**New regulations related to conflict minerals could adversely impact our business.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements will require due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering conflict-free minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

**Ineffective internal control over our financial reporting may harm our business in the future.**

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 ( the Act ). Our controls necessary for continued compliance with the Act may not operate effectively at all times and may result in a material weakness. The identification of material weaknesses in internal control over financial reporting, if any, could indicate a lack of proper controls to generate accurate financial statements. Further, the effectiveness of our internal controls may be impacted if we are unable to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of February 14, 2013, we had manufacturing facilities, administrative, research and development and sales offices in the following locations:

<b>Manufacturing Facilities</b>	<b>Square Footage</b>	<b>Owned/Leased</b>	<b>Segment</b>
Albuquerque, New Mexico	91,000	Leased	Components and Sensors
Ayuthya, Thailand	70,000	Owned <sup>(1)</sup>	EMS
Brugg, Switzerland	21,500	Leased	Components and Sensors
Carol Stream, Illinois	50,700	Owned <sup>(2)</sup>	Components and Sensors
Elkhart, Indiana	319,000	Owned	Components and Sensors
Glasgow, Scotland	37,000	Leased	Components and Sensors and EMS
Haryana, India	8,000	Leased	Components and Sensors
Hopkinton, Massachusetts	32,000	Owned	Components and Sensors
Juarez, Mexico	44,000	Leased <sup>(2)</sup>	Components and Sensors
Kaohsiung, Taiwan	133,000	Owned <sup>(3)</sup>	Components and Sensors
Londonderry, New Hampshire	54,000	Leased	EMS
Matamoros, Mexico	51,000	Owned	Components and Sensors and EMS
Matamoros, Mexico	59,900	Leased	EMS
Moorpark, California	115,500	Leased	EMS
Nogales, Mexico	67,000	Leased	Components and Sensors
Ostrava, Czech Republic	60,000	Leased	Components and Sensors
San Jose, California	78,800	Leased	EMS
Singapore	57,600	Leased <sup>(4)</sup>	Components and Sensors
Streetsville, Ontario, Canada	112,000	Owned	Components and Sensors
Tianjin, China	225,000	Owned <sup>(5)</sup>	Components and Sensors and EMS
Zhongshan, China	72,400	Leased	Components and Sensors
<b>Total manufacturing</b>	<b>1,759,400</b>		

<b>Non-Manufacturing Facilities</b>	<b>Square Footage</b>	<b>Owned/ Leased</b>	<b>Description</b>	<b>Segment</b>
Auburn Hills, Michigan	1,600	Leased	Sales office	Components and Sensors
Brownsville, Texas	85,000	Owned	Idle facility	Components and Sensors
Burbank, California	2,900	Leased	Sublet to tenant	Components and Sensors
El Paso, Texas	11,900	Leased	Office and Warehouse <sup>(2)</sup>	Components and Sensors
Elkhart, Indiana	93,000	Owned	Administrative offices and research	Components and Sensors and EMS
Glasgow, Scotland	75,000	Owned	Administrative offices and research	Components and Sensors and EMS
Lisle, Illinois	37,200	Leased	Administrative offices and research	Components and Sensors and EMS
Nagoya, Japan	800	Leased	Sales office	Components and Sensors
Sandwich, Illinois		Owned	Land only	Components and Sensors
Tucson, Arizona	1,900	Leased	Administrative offices	Components and Sensors
Tucson, Arizona	48,000	Owned	Idle Facility	Components and Sensors
Yokohama, Japan	1,400	Leased	Sales office	Components and Sensors
<b>Total non-manufacturing</b>	<b>358,700</b>			

Edgar Filing: CTS CORP - Form 10-K

- (1) *The land and building are collateral for an unused credit facility.*
  
- (2) *These facilities are part of the D&R technology acquisition in December 2012.*

(3) *Ground lease through 2017; restrictions on use and transfer apply.*

(4) *Building sold and smaller amount of square footage leased back, December 2012.*

(5) *Land Use Rights Agreement through 2050 includes transfer, lease and mortgage rights.*

We regularly assess the adequacy of our manufacturing facilities for manufacturing capacity, available labor, and proximity to our markets and major customers. Management believes our manufacturing facilities are suitable and adequate, and have sufficient capacity to meet our current needs. The extent of utilization varies from plant to plant and with general economic conditions. We also review the operating costs of our facilities and may from time-to-time relocate or move a portion of our manufacturing activities in order to reduce operating costs and improve asset utilization and cash flow.

### **Item 3. Legal Proceedings**

We manufacture accelerator pedals for a number of automobile manufacturers, including subsidiaries of Toyota. In January 2010, Toyota initiated a recall of a substantial number of vehicles in North America 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 does not, however, cover costs or liabilities in connection with government investigations, government hearings, or government recalls.

Presently, we have been served process and named as a co-defendant with Toyota in approximately thirty-six open lawsuits; we have been dismissed as a defendant from an additional thirty-three lawsuits. The claims 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 United 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 of these 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.

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

### **Item 4. Mine Safety Disclosures**

**Not applicable**

## PART II

### Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

CTS common stock is listed on the New York Stock Exchange under the symbol CTS. On February 14, 2013, there were approximately 1,393 common shareholders of record.

CTS pays quarterly dividends at the rate of \$0.035 per share, or an annual rate of \$0.14 per share. The declaration of a dividend and the amount of any such dividend is subject to earnings, anticipated working capital, capital expenditures, other investment requirements, the financial condition of CTS, and any other factors considered relevant by the Board of Directors.

#### Per Share Data

(Unaudited)

	High <sup>(1)</sup>	Low <sup>(1)</sup>	Dividends Declared	Net	
				Earnings Basic	Earnings Diluted
<b>2012</b>					
4 <sup>th</sup> quarter	\$ 10.66	\$ 7.06	\$ 0.035	\$ 0.26	\$ 0.25
3 <sup>rd</sup> quarter	10.64	8.38	0.035	0.17	0.17
2 <sup>nd</sup> quarter	11.22	8.81	0.035	0.10	0.10
1 <sup>st</sup> quarter	11.03	9.17	0.035	0.07	0.07
<b>2011</b>					
4 <sup>th</sup> quarter	\$ 10.27	\$ 7.14	\$ 0.035	\$ 0.17	\$ 0.16
3 <sup>rd</sup> quarter	10.18	7.96	0.03	0.17	0.17
2 <sup>nd</sup> quarter	11.10	8.74	0.03	0.12	0.12
1 <sup>st</sup> quarter	12.39	10.03	0.03	0.15	0.15

(1) The market prices of CTS common stock presented reflect the highest and lowest sales prices on the New York Stock Exchange for each quarter of the last two years.

As shown in the following table, there were CTS common stock repurchases made by the Company during the three months ended December 31, 2012:

		(a)		(b)		(c)		(d)	
		Total Number of Shares Purchased		Average Price Paid per Share		Total Number of Shares Purchased as part of Plans or Program		Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1 &amp; 2)</sup>	
Balance at September 30, 2012									908,814
October 1, 2012	October 28, 2012	128,814		\$ 8.77		128,814			780,000
October 29, 2012	November 25, 2012	148,020		\$ 8.33		148,020			631,980
November 26, 2012	December 31, 2012	163,675		\$ 8.93		163,675			468,305

## Edgar Filing: CTS CORP - Form 10-K

- (1) *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. The authorization had no expiration date. This repurchase program was completed in July 2012.*
- (2) *In August 2012, CTS Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market. The authorization has no expiration date.*

CTS CORPORATION 19



**Item 6. Selected Financial Data****Five-Year Summary**

(In thousands except per share data)

		% of		% of		% of		% of		% of
	2012	Sales	2011	Sales	2010	Sales	2009	Sales	2008	Sales
<b>Summary of Operations</b>										
Net sales	\$ 576,918	100.0	\$ 588,506	100.0	\$ 552,641	100.0	\$ 498,982	100.0	\$ 691,707	100.0
Cost of goods sold	475,536	82.4	478,657	81.3	432,731	78.3	400,142	80.2	554,634	80.2
Insurance recovery for business interruption	(20,893)	(3.6)	(4,082)	(0.7)		0.0		0.0		0.0
Selling, general and administrative expenses <sup>(1)</sup>	77,358	13.4	69,284	11.8	69,805	12.6	64,129	12.9	78,755	11.4
Research and development expenses	20,918	3.6	19,990	3.4	18,313	3.3	14,154	2.8	18,306	2.6
Insurance recovery for property damage	(1,769)	(0.3)	(6,067)	(1.0)		0.0		0.0		0.0
Amortization of intangible assets	3,028	0.5	2,606	0.4	2,505	0.5	2,990	0.6	3,615	0.5
Restructuring and goodwill impairment charges	6,386	1.1	2,878	0.5	1,444	0.3	35,396	7.1	5,567	0.8
Gain on sale-leaseback	(10,334)	(1.7)		0.0		0.0		0.0		0.0
Operating earnings/(loss)	26,688	4.6	25,240	4.3	27,843	5.0	(17,829)	(3.6)	30,830	4.5
Other income/(expense) net	254	0.1	1,097	0.2	183		(2,585)	(0.5)	(4,575)	(0.7)
Earnings/(loss) before income taxes	26,942	4.7	26,337	4.5	28,026	5.0	(20,414)	(4.1)	26,255	3.8
Income tax expense/(benefit)	6,609	1.2	5,370	0.9	5,988	1.0	13,636	2.7	(1,807)	(0.3)
Net earnings/(loss)	20,333	3.5	20,967	3.6	22,038	4.0	(34,050)	(6.8)	28,062	4.1
Retained earnings beginning of year	352,205		335,524		317,582		355,694		331,675	
Dividends declared	(4,738)		(4,286)		(4,096)		(4,062)		(4,043)	
Retained earnings end of year	\$ 367,800		\$ 352,205		\$ 335,524		\$ 317,582		\$ 355,694	
<b>Net earnings/(loss) per share:</b>										
<b>Basic:</b>	\$ 0.60		\$ 0.61		\$ 0.65		\$ (1.01)		\$ 0.83	
<b>Diluted:</b>	\$ 0.59		\$ 0.60		\$ 0.63		\$ (1.01)		\$ 0.81	
Average basic shares outstanding	33,922		34,321		34,090		33,823		33,728	
Average diluted shares outstanding	34,523		35,006		34,849		33,823		37,864	
Cash dividends per share (annualized)	\$ 0.14		\$ 0.125		\$ 0.12		\$ 0.12		\$ 0.12	
Capital expenditures <sup>(2)</sup>	16,323		20,307		13,271		6,537		17,647	
Depreciation and amortization	19,615		17,548		17,565		19,531		24,178	
<b>Financial Position at Year End</b>										
Current assets	\$ 309,558		\$ 283,386		\$ 266,655		\$ 193,735		\$ 225,842	
Current liabilities	115,026		124,237		120,100		90,516		113,241	
Current ratio	2.7 to 1		2.3 to 1		2.2 to 1		2.1 to 1		2.0 to 1	
Working capital	\$ 194,532		\$ 159,149		\$ 146,555		\$ 103,219		\$ 112,601	
Inventories, net	81,752		92,540		76,885		54,348		70,867	
Net property, plant and equipment	93,725		84,860		78,213		81,120		90,756	

## Edgar Filing: CTS CORP - Form 10-K

Total assets	<b>561,176</b>	480,815	482,584	407,657	488,442
Short-term notes payable					
Long-term debt	<b>153,500</b>	74,400	70,000	50,400	79,988
Long-term obligations, including long-term debt	<b>178,392</b>	93,281	88,234	69,687	97,728
Shareholders' equity	<b>267,758</b>	263,297	274,250	247,454	277,473
Common shares outstanding (000s)	<b>33,433</b>	34,066	34,197	33,893	33,711
Equity (book value) per share	<b>\$ 8.01</b>	\$ 7.73	\$ 8.02	\$ 7.30	\$ 8.23
Stock price range	<b>\$ 11.22-7.06</b>	\$ 12.39-7.14	\$ 11.84-6.81	10.62-2.11	\$ 13.99-3.99

(1) Excludes amortization of intangible asset

(2) Includes capital expenditures to replace property, plant and equipment damaged in casualties of \$2,859 and \$4,733 in 2012 and 2011, respectively. Certain acquisitions, divestitures, closures of operations or product lines, and certain accounting reclassifications affect the comparability of information contained in the Five-Year Summary.

---

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Information about results of operations, liquidity, and capital resources for the three previous years is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations (2010-2012) included in the 2012 Annual Report to Shareholders and is incorporated herein by reference.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Our cash flows and earnings are subject to fluctuations resulting from changes in foreign currency exchange rates and interest rates. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policies do not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and we are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

*Interest Rate Risk*

We are exposed to the changes in interest rates on our revolving credit facility. There was \$153.5 million and \$74.4 million outstanding under our revolving credit facility at December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, we had \$75.0 million and \$0.0 million in interest rate swaps that fix our interest cost. See Note G, Debt, to our consolidated financial statements for components of our long-term debt and interest rate swaps. Based on our long-term debt balance of \$153.5 million at December 31, 2012, a one percentage point increase in interest rates would increase our annual interest expense by approximately \$0.8 million.

*Foreign Currency Risk*

We are exposed to foreign currency exchange rate risks. Our significant foreign subsidiaries are located in Canada, China, Czech Republic, Scotland, Singapore, Switzerland, Taiwan and Thailand. As of December 31, 2012, we did not have any outstanding foreign currency forward exchange contracts.

In the normal course of business, our financial position is routinely subjected to a variety of risks, including market risks associated with interest rate movements, currency rate movements on non-U.S. dollar denominated assets and liabilities.

*Commodity Price Risk*

Many of our products require the use of raw materials that are produced in only a limited number of regions around the world or are available from only a limited number of suppliers. Our results of operations may be materially and adversely affected if we have difficulty obtaining these raw materials, the quality of available raw materials deteriorates, or there are significant price increases for these raw materials. For periods in which the prices of these raw materials are rising, we may be unable to pass on the increased cost to our customers which would result in decreased margins for the products in which they are used. For periods in which the prices are declining, we may be required to write down our inventory carrying cost of these raw materials, since we record our inventory at the lower of cost or market.

**Item 8. Financial Statements and Supplementary Data**

Consolidated financial statements meeting the requirements of Regulation S-X, and the Report of our Independent Registered Public Accounting Firm, appear in the financial statements and supplementary financial data as noted in the Index appearing under Item 15(a)(1) and (2), and are included in the 2012 Annual Report to Shareholders and incorporated herein by reference.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated our disclosure controls and procedures as of the end of the period covered by this annual report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

In December 2012, we acquired D&R Technology (D&R), which has facilities in Carol Stream, Illinois and Juarez, Mexico. D&R's financial results are included in this report for the year ended December 31, 2012. Management has not made an assessment of the D&R business' internal control over financial reporting since the date of acquisition. The D&R business' assets and liabilities acquired were \$69.0 million and \$5.5 million, respectively, and the sales of D&R included in CTS' 2012 financial statements were approximately \$0.3 million. The D&R business was not included in our evaluation of the effectiveness of disclosure controls and procedures.

The report from Grant Thornton LLP on its audit of the effectiveness of CTS' internal control over financial reporting as of December 31, 2012, is included on page 17 of Exhibit 13 of this Annual Report on Form 10-K under the heading Report of Independent Registered Public Accounting Firm and is incorporated herein by reference. The Report of Management on Internal Control over Financial Reporting, which can be found following the signature page of this Annual Report on Form 10-K, is incorporated herein by reference.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting for the year ended December 31, 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Please see Part I, Item 1 of this Annual Report on Form 10-K for information about our executive officers, which is incorporated by reference herein. Information with respect to Directors and Corporate Governance may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

### **Item 11. Executive Compensation**

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services**

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statements Schedules

The list of financial statements and schedules required by Item 15 (a) (1) and (2) is contained on page S-1 herein.

#### (a) (3) Exhibits

All references to documents filed pursuant to the Securities Exchange Act of 1934, including Forms 10-K, 10-Q and 8-K, were filed by CTS Corporation, File No. 1-4639.

- (2)(i) Membership Interest Purchase Agreement dated December 21, 2012 between CTS Corporation, Wanxiang Product Development Corp., RB D&R, LLC and Anthony Urban (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed with the SEC on December 26, 2012).
- (3)(i) Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 5 to the Current Report on Form 8-K, filed with the SEC on September 1, 1998).
- (3)(ii) Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3 to the Current Report on Form 8-K, filed with the SEC on February 8, 2010).
- (10)(a) Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on November 12, 2008).
- (10)(b) CTS Corporation Stock Retirement Plan for Non-Employee Directors, effective April 30, 1990, as amended (incorporated by reference to Exhibit (10)(a) to the Quarterly Report on Form 10-Q for the quarter ended March 30, 2003, filed with the SEC on April 23, 2003).\*
- (10)(c) Amendment to the CTS Corporation Stock Retirement Plan for Non-Employee Directors, dated as of December 1, 2004 (incorporated by reference to Exhibit (10)(j) to the Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 4, 2005).
- (10)(d) CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit (10)(t) to the Annual Report on Form 10-K for the year ended December 31, 2002, filed with the SEC on February 14, 2003).\*
- (10)(e) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the quarter ended June 29, 2003, filed with the SEC on July 25, 2003).\*
- (10)(f) CTS Corporation 2004 Omnibus Long-term Incentive Plan and Incentive Stock Option Agreement (incorporated by reference to the Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, filed with the SEC on October 19, 2004).\*
- (10)(g) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(p) to the Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on February 27, 2006).\*
- (10)(h) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 2, 2006, filed with the SEC on April 26, 2006).\*
- (10)(i) Credit Agreement, dated as of November 18, 2010, by and among CTS Corporation, the Lenders named therein and Harris N.A. as L/C Issuer, and Administrative Agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K, filed with the SEC on November 22, 2010).
- (10)(j) First amendment to credit agreement dated as of January 10, 2012, by and among CTS Corporation, the lenders name therein and Harris N.A. as L/C issuer and administrative agent (incorporated by reference to Exhibit 10(a) to the current report on Form 8-K filed with the SEC on January 11, 2012).
- (10)(k) Amendment No. 1 to the CTS Corporation 2004 Omnibus Long-term Incentive Plan (incorporated by reference to Exhibit 10(aa) to the Annual Report on Form 10-K filed with the SEC on May 15, 2007).\*

Edgar Filing: CTS CORP - Form 10-K

(10)(l) CTS Corporation Management Incentive Plan, approved by the shareholders on June 28, 2007 (incorporated by reference to Appendix A to the Proxy Statement for the 2007 Annual Meeting of Shareholders, filed with the SEC on May 24, 2007).\*

24 CTS CORPORATION

## Edgar Filing: CTS CORP - Form 10-K

---

- (10)(m) Performance Share Agreement between CTS Corporation and Vinod M. Khilnani, dated August 1, 2007  
  
(incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).\*
- (10)(n) Prototype Individual Excess Benefit Retirement Plan (incorporated by reference to Exhibit 10(d) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).\*
- (10)(o) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(bb) to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 23, 2009).\*
- (10)(p) 2009-2010 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended March 29, 2009, filed with the SEC on April 29, 2009).\*
- (10)(q) CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(r) 2010 2011 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 4, 2010, filed with the SEC on April 28, 2010).\*
- (10)(s) Form Restricted Stock Unit Agreement (Shares) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(t) Form Restricted Stock Unit Agreement (Cash) (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(u) CTS Corporation Executive Severance Policy, effective as of September 10, 2009 (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarter ended September 27, 2009, filed with the SEC on October 28, 2009).\*
- (10)(v) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(w) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 24, 2011).\*
- (10)(w) Letter Agreement dated February 19, 2010 by and among CTS Corporation, Toyota Motor Sales, U.S.A. Inc., Toyota Canada Inc. and Toyota Motor Engineering & Manufacturing North America, Inc. (incorporated by reference to Exhibit 10(a) to the Quarterly Report on form 10-Q for the quarter ended October 3, 2010, filed with the SEC October 27, 2010).
- (10)(x) Prototype Change in Control Agreement (incorporated by reference to Exhibit 10(x) to the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 23, 2012).\*
- (10)(y) 2011- 2012 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 3, 2011, filed with the SEC on April 27, 2011). \*
- (10)(z) Agreement, dated as of March 27, 2012, by and between CTS Corporation and Vinod M. Khilnani (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on March 30, 2012).\*
- (10)(aa) CTS Corporation Management Incentive Plan, approved by the shareholders on May 23, 2012 (incorporated by reference to Appendix A to the Proxy Statement for the 2012 Annual Meeting of Shareholders, filed with the SEC on April 17, 2012).\*
- (10)(bb) 2012-2013 Performance Restricted Stock Unit Plan. \*
- (10)(cc) CTS Corporation 2013 2015 CEO Performance Restricted Stock Unit Plan, dated February 8, 2013. \*
- (13) Portions of the 2012 Annual Report to shareholders incorporated herein.
- (21) Subsidiaries.



- (23) Consent of Grant Thornton LLP.
- (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.XML\*\* XBRL Instance Document
- 101.XSD\*\* XBRL Taxonomy Extension Schema Document
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\* *Management contract or compensatory plan or arrangement.*

\*\* *XBRL (Extensible Business Reporting Language) information is furnished and not filed or a 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 Section 13 or 15(d) 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**

Date: February 25, 2013

By: */s/Thomas A. Kroll*  
Thomas A. Kroll

Vice President and Chief Financial Officer

(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2013

By: */s/ Kieran M. O Sullivan*  
Kieran M. O Sullivan

Director, President, and Chief Executive Officer

(Principal Executive Officer)

Date: February 25, 2013

By: */s/ Vinod M. Khilnani*  
Vinod M. Khilnani

Executive Chairman of the Board

Date: February 25, 2013

By: */s/ Thomas G. Cody*  
Thomas G. Cody

Lead Director

Date: February 25, 2013

By: */s/ Walter S. Catlow*  
Walter S. Catlow

Director

Date: February 25, 2013

By: */s/ Lawrence J. Ciancia*  
Lawrence J. Ciancia

Director

Date: February 25, 2013

By: */s/ Patricia K. Collawn*  
Patricia K. Collawn

Director

Date: February 25, 2013

By: */s/ Michael A. Henning*  
Michael A. Henning

Edgar Filing: CTS CORP - Form 10-K

Director

Date: February 25, 2013

By: */s/ Gordon Hunter*  
Gordon Hunter

Director

Date: February 25, 2013

By: */s/ Diana M. Murphy*  
Diana M. Murphy

Director

CTS CORPORATION 27

Date: February 25, 2013

By: */s/ Robert A. Profusek*  
Robert A. Profusek

Director

Date: February 25, 2013

By: */s/ Thomas A. Kroll*  
Thomas A. Kroll

Vice President and Chief Financial Officer

(Principal Accounting Officer)

28 CTS CORPORATION

---

**FORM 10-K    ITEM 15 (a) (1) AND (2) AND ITEM 15 (c)**

**CTS CORPORATION AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS**

**AND FINANCIAL STATEMENT SCHEDULE**

The following consolidated financial statements of CTS Corporation and subsidiaries included in the 2012 Annual Report are referenced in Part II, Item 8, filed herewith as Exhibit (13) and incorporated herein by reference:

Consolidated Statements of Earnings    Years ended December 31, 2012, December 31, 2011 and December 31, 2010

Consolidated Statements of Comprehensive Earnings/(Loss)    Years ended December 31, 2012, December 31, 2011 and December 31, 2010

Consolidated Balance Sheets    December 31, 2012 and December 31, 2011

Consolidated Statements of Cash Flows    Years ended December 31, 2012, December 31, 2011 and December 31, 2010

Consolidated Statements of Shareholders' Equity    Years ended December 31, 2012, December 31, 2011 and

December 31, 2010

Notes to consolidated financial statements

Schedule II    Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable, not required or the information is included in the consolidated financial statements or notes thereto.

CTS CORPORATION 29

---

**Management's Report on Internal Control Over Financial Reporting**

CTS management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including CTS Chief Executive Officer and Chief Financial Officer, CTS conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In December 2012, we acquired D&R Technology (D&R), which has facilities in Carol Stream, Illinois and Juarez, Mexico. D&R's financial results are included in this report for the year ended December 31, 2012. Management has not made an assessment of the D&R business' internal control over financial reporting since the date of acquisition. The D&R business' assets and liabilities acquired were \$69.0 million and \$5.5 million, respectively, and the sales of D&R included in CTS' 2012 financial statements were approximately \$0.3 million. The D&R business was not included in our evaluation of the effectiveness of disclosure controls and procedures.

In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2012, management determined that its internal control over financial reporting, excluding the D&R Technology business described above, was effective as of December 31, 2012. Grant Thornton LLP, an independent registered public accounting firm, has audited CTS' internal control over financial reporting as of December 31, 2012, as stated in their report which is included herein.

CTS Corporation

Elkhart, Indiana

February 25, 2013

*/s/ Kieran M. O Sullivan*

Kieran M. O Sullivan

President and Chief Executive Officer

(Principal Executive Officer)

*/s/ Thomas A. Kroll*

Thomas A. Kroll

Vice President and Chief Financial Officer

(Principal Accounting Officer)

*/s/ Vinod M. Khilnani*

Vinod M. Khilnani

Executive Chairman of the Board

30 CTS CORPORATION