CTS CORP
Form 10-Q/A
May 15, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended April 2, 2006
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____

Commission File Number: 1-4639

CTS CORPORATION

(Exact name of registrant as specified in its charter)

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

offices)

Registrant's telephone number, including area code: 574-293-7511

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 24, 2006:
35,886,365

CTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

			Page
EXPLANATORY NOTE			3
PART I.	**FINANCIAL INFORMATION**		4
	Item 1.	Financial Statements	4
	Condensed Consolidated Statements of Earnings - For the Three Months ended April 2, 2006 (as restated)and April 3, 2005		4
	Condensed Consolidated Balance Sheets - As of April 2, 2006 (as restated), and December 31, 2005 (as restated)		5
	Condensed Consolidated Statements of Cash Flows - For the Three Months Ended April 2, 2006 (as restated) and April 3, 2005		6
	Condensed Consolidated Statements of Comprehensive Earnings - For the Three Months Ended April 2, 2006 (as restated) and April 3, 2005		7
	Notes to Condensed Consolidated Financial Statements (as restated)		8
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations (as restated)	20
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	28
	Item 4.	Controls and Procedures (as restated)	28
PART II.	**OTHER INFORMATION**		29
	Item 1.	Legal Proceedings	29
	Item 1A.	Risk Factors	29
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
	Item 6.	Exhibits	30
SIGNATURES			31

Table of Contents

EXPLANATORY NOTE

We are filing this Form 10-Q/A to amend our Quarterly Report on Form 10-Q for the quarter ended April 2, 2006 as filed with the Securities and Exchange Commission on April 26, 2006 (the "Original Filing") to restate our consolidated financial statements and amend the related disclosures for the three-month period ended April 2, 2006. This amended Form 10-Q/A also includes the restatement of selected unaudited quarterly financial data for the first quarter in the year ended December 31, 2006 and a restated condensed consolidated balance sheet for the year ended December 31, 2005. As previously disclosed in our Current Report on Form 8-K filed on February 9, 2007, our financial statements and related financial information contained in our Quarterly Reports on Form 10-Q filed in 2006 should no longer be relied upon. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the Original Filing.

The restatement of the Original Filing was based on a review initiated by management under the oversight of the Audit Committee, with the assistance of outside counsel and forensic accountants, revealing incorrect entries made by the controller at our Moorpark, California location. The incorrect entries consisted of the movement of costs from income statement accounts, primarily cost of goods sold, to balance sheet accounts, primarily accounts payable, beginning in 2005 and continuing throughout 2006.

For more information on these matters, please refer to Note B, to the condensed consolidated financial statements "Restatement of the Condensed Consolidated Financial Statements", Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 4, "Controls and Procedures."

All of the information in this Form10-Q/A is as of April 2, 2006 and does not reflect events occurring after the date of the Original Filing, other than the restatement, or update disclosures affected by subsequent events, including the exhibits to the Original Filing, except for the updated Exhibits 31(a), 31(b), 32(a), and 32(b). This Form 10-Q/A sets forth the Original Filing in its entirety, as amended by and to reflect the restatement, as well as other adjustments described above. The following items in the Form 10-Q/A were amended to reflect the restatement:

Part I Item 1 Unaudited Financial Statements;
Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations;
Part I Item 4 Controls and Procedures;
Part II Item 6 Exhibits

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - UNAUDITED
(In thousands, except per share amounts)

	Three Months Ended	
	April 2, 2006 (as restated)	**April 3, 2005**
Net sales	$ 150,493	$ 155,330
Costs and expenses:		
Cost of goods sold	120,452	127,115
Selling, general, and administrative expenses	16,390	17,757
Research and development expenses	4,092	4,787
Restructuring charge - Note D	1,962	—
Operating earnings	7,597	5,671
Other (expense) income:		
Interest expense	(1,111)	(1,717)
Interest income	125	419
Other	3	26
Total other expense	(983)	(1,272)
Earnings before income taxes	6,614	4,399
Income tax expense	1,574	1,012
Net earnings	$ 5,040	$ 3,387
Net earnings per share — Note L		
Basic	$ 0.14	$ 0.09
Diluted	$ 0.13	$ 0.09
Cash dividends declared per share	$ 0.03	$ 0.03
Average common shares outstanding:		
Basic	35,821	36,398
Diluted	40,234	40,979

See notes to condensed consolidated financial statements (as restated).

Table of Contents

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

	April 2, 2006 (as restated)	December 31, 2005* (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12,637	$ 12,029
Accounts receivable, less allowances (2006 - $2,578; 2005 - $2,373)	94,005	90,790
Inventories — Note G	60,995	60,629
Other current assets	19,678	16,268
Total current assets	187,315	179,716
Property, plant and equipment, less accumulated depreciation (2006 - $251,315; 2005 - $252,545)	106,212	109,653
Other Assets		
Prepaid pension asset — Note I	153,680	152,483
Goodwill	24,657	24,657
Other intangible assets	41,540	42,347
Deferred income taxes	22,921	22,887
Other	1,943	2,086
Total other assets	244,741	244,460
Total Assets	$ 538,268	$ 533,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable	$ 14,124	$ 13,299
Current portion of long-term debt - Note H	170	164
Accounts payable	66,219	68,720
Accrued liabilities	39,767	39,140
Total current liabilities	120,280	121,323
Long-term debt - Note H	68,208	68,293
Other long-term obligations	16,206	16,120
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock — authorized 75,000,000 shares without par value; 53,603,592 shares issued at April 2, 2006 and 53,576,243 shares issued at December 31, 2005	275,485	275,211
Additional contributed capital	25,483	24,743
Retained earnings	299,441	295,478
Accumulated other comprehensive earnings (loss)	291	(244)
	600,700	595,188
Cost of common stock held in treasury (17,720,127 shares at 2006 and 17,717,657 shares at 2005)	(267,126)	(267,095)
Total shareholders' equity	333,574	328,093
Total Liabilities and Shareholders' Equity	$ 538,268	$ 533,829

The balance sheet at December 31, 2005, has been derived from the restated audited financial statements at that date.

See notes to condensed consolidated financial statements (as restated).

Table of Contents

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

	Three Months Ended	
	April 2, 2006 (as restated)	**April 3, 2005**
Cash flows from operating activities:		
Net earnings	$ 5,040	$ 3,387
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,687	6,848
Equity-based compensation - Note C	865	617
Changes in assets and liabilities, net of effects from purchase of SMTEK		
Accounts receivable	(3,216)	2,078
Inventories	(366)	(139)
Other current assets	(2,906)	(2,226)
Prepaid pension asset	(1,197)	(1,887)
Accounts payable and accrued liabilities	(1,825)	1,688
Other	(453)	493
Total adjustments	(2,411)	7,472
Net cash provided by operating activities	2,629	10,859
Cash flows from investing activities:		
Payment for purchase of SMTEK, net of cash acquired	—	(35,561)
Capital expenditures	(2,479)	(3,004)
Proceeds from sales of assets	513	499
Net cash used in investing activities	(1,966)	(38,066)
Cash flows from financing activities:		
Repayment of debt assumed in connection with purchase of SMTEK	—	(13,013)
Payments of long-term debt	(34,165)	(33,982)
Proceeds from borrowings of long-term debt	34,040	72,715
Increase in short-term notes payable	825	188
Dividends paid	(1,076)	(1,078)
Other	39	78
Net cash provided by (used in) financing activities	(337)	24,908
Effect of exchange rate on cash and cash equivalents	282	(469)
Net increase (decrease) in cash and cash equivalents	608	(2,768)
Cash and cash equivalents at beginning of year	12,029	61,005
Cash and cash equivalents at end of period	$ 12,637	$ 58,237
Supplemental cash flow information		
Cash paid during the period for:		

Interest	$ 559	$ 1,503
Income taxes—net	$ 1,360	$ 819

Supplemental schedule of noncash investing and financing activities:

Refer to Note F, “Supplemental Schedule of Noncash Investing and Financing Activities”

See notes to condensed consolidated financial statements (as restated).

Table of Contents

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

	Three Months Ended	
	April 2, 2006 (as restated)	**April 3, 2005**
Net earnings	$ 5,040	$ 3,387
Other comprehensive earnings (loss):		
Cumulative translation adjustment	535	(395)
Comprehensive earnings	$ 5,575	$ 2,992

See notes to condensed consolidated financial statements (as restated).

Table of Contents

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED
April 2, 2006

NOTE A—Basis of Presentation

The accompanying condensed consolidated interim financial statements have been prepared by CTS Corporation (CTS or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated interim financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying unaudited condensed consolidated interim financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

NOTE B—Restatement of Condensed Consolidated Financial Statements

In February 2007, management commenced an investigation of accounting entries at CTS' Moorpark and Santa Clara, California manufacturing locations. The investigation was conducted under the oversight of the Audit Committee and with the assistance of outside legal counsel and forensic accountants.

The investigation determined that the Moorpark Controller made numerous incorrect accounting entries beginning in 2005 and continuing through 2006. These entries transferred significant costs from income statement accounts, primarily cost of goods sold, to balance sheet accounts, primarily accounts payable.

The net tax adjusted effect of these misstatements on CTS' 2005 earnings was $1.5 million and on the nine months ended October 1, 2006 earnings was $1.9 million. Management has included a restated condensed consolidated balance sheet for the year ended December 31, 2005 in this filing. Management determined that the effect of the misstatements on CTS' 2006 consolidated financial statements was material. As a result of the misstatements, CTS has restated its condensed consolidated financial statements for each of the first three quarters of 2006 to record $1.9 million of total costs net of related income tax effects. These misstatements resulted in tax adjusted charges of $1.2 million, $1.0 million and $(0.3) million for each of the quarters ended April 2, 2006, July 2, 2006 and October 1, 2006, respectively. These additional charges are non-cash and have no impact on CTS' reported revenue, cash, cash equivalents or marketable securities for each of the restated periods.

CTS' original filings on Form 10-Q for the quarters ended April 2, 2006, July 2, 2006 and October 1, 2006 are being amended in Quarterly Reports on Form 10-Q/A to reflect restated consolidated financial statements and related disclosures.

Table of Contents

The following table sets forth the impact of the misstatements and related tax effects on CTS' condensed consolidated financial statements for the three-month period ended April 2, 2006 and the condensed consolidated balance sheet as of December 31, 2005:

Income Statement

	Three months ended April 2, 2006		
	As Reported	**Adjustments**	**As Restated**
Cost of Goods Sold	$ 118,419	$ 2,033	$ 120,452
Selling, general and administrative expenses	16,737	(347)	16,390
Operating Earnings	9,283	(1,686)	7,597
Earnings before income taxes	8,300	(1,686)	6,614
Income tax expense	2,075	(501)	1,574
Net earnings	$ 6,225	$ (1,185)	$ 5,040
Net earnings per share			
Basic	$ 0.17	$ (.03)	$ 0.14
Diluted	0.16	(.03)	0.13

Balance Sheet

	April 2, 2006		
	As Reported	**Adjustments**	**As Restated**
Account receivable	$ 94,136	$ (131)	$ 94,005
Inventories	61,450	(455)	60,995
Other current assets	19,813	(135)	19,678
Total current assets	188,036	(721)	187,315
Deferred income taxes	22,045	876	22,921
Property, plant and equipment	106,278	(66)	106,212
Total Assets	$ 538,179	$ 89	$ 538,268
Accounts payable	62,681	3,538	66,219
Accrued liabilities	40,552	(785)	39,767
Total current liabilities	117,527	2,753	120,280
Retained earnings	302,105	(2,664)	299,441
Total shareholders’ equity	336,238	(2,664)	333,574
Total Liabilities and Shareholders’ Equity	$ 538,179	$ 89	$ 538,268

Balance Sheet

	December 31, 2005		
	As Reported	**Adjustments**	**As Restated**
Account receivable	$ 91,265	$ (475)	$ 90,790
Inventories	60,564	65	60,629
Other current assets	16,816	(548)	16,268

Total current assets		180,674		(958)	179,716
Deferred income taxes		22,011		876	22,887
Property, plant and equipment		109,676		(23)	109,653
Other assets		2,088		(2)	2,086
Total Assets	$	533,936	$	(107)	$ 533,829
Accounts payable		67,196		1,524	68,720
Accrued liabilities		39,274		(134)	39,140
Total current liabilities		119,933		1,390	121,323
Other long-term obligations		16,139		(19)	16,120
Retained earnings		296,956		(1,478)	295,478
Total shareholders' equity		329,571		(1,478)	328,093
Total Liabilities and Shareholders' Equity	$	533,936	$	(107)	$ 533,829

Table of Contents

NOTE C—Share-Based Compensation

Effective January 1, 2006, CTS adopted the provisions of the Financial Accounting Standards Board's (FASB) Financial Accounting Standard (FAS) No. 123(R), "Share-Based Payment." FAS No. 123(R) requires that CTS recognize expense related to the fair value of stock-based compensation awards in the Unaudited Condensed Consolidated Statement of Earnings.

Prior to January 1, 2006, CTS accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and its related Interpretations. Accordingly, stock compensation expense was not recognized in the Unaudited Condensed Consolidated Statement of Earnings for stock options granted with an exercise price equal to the market value of the common stock on the grant date. However, prior years' financial statements did include pro forma disclosures for equity-based awards as if the fair-value approach had been followed. The following table presents the pro forma net earnings and net earnings per share for the quarter ending April 3, 2005, as if CTS had applied the provisions of FAS No. 123(R) during that period:

($ in thousands, except per share amounts)	**Three Months Ended April 3, 2005**
Net earnings, as reported	$ 3,387
Deduct: Stock-based employee compensation cost, net of tax, if fair value method were used	(130)
Proforma net earnings	$ 3,257
Net earnings per share-basic, as reported	$ 0.09
Proforma net earnings per share-basic	0.09
Net earnings per share-diluted, as reported	0.09
Proforma net earnings per share-diluted	$ 0.09

CTS has elected to follow the modified prospective transition method allowed by FAS No. 123(R), and therefore, will apply the provisions of FAS No. 123(R) to awards modified or granted after January 1, 2006. In addition, for awards which were unvested as of January 1, 2006, CTS will recognize compensation expense in the Unaudited Condensed Consolidated Statement of Earnings over the remaining vesting period. The compensation expense for these awards will be based on the grant-date fair value as calculated for the prior years' pro forma disclosures. As allowed under the modified prospective transition method, the financial results for prior periods have not been restated. The cumulative effect of the change in accounting principle from APB No. 25 was not material.

As a result of adopting FAS No. 123(R), CTS' operating earnings and earnings before income taxes for the three months ending April 2, 2006 includes $209,000 of additional compensation expense, equating to $157,000 of after-tax expense included in net earnings. Reported basic and diluted earnings per share are unchanged due to the adoption of FAS No. 123(R).

Prior to the adoption of FAS No. 123(R), CTS presented tax benefits in excess of recognized cumulative compensation costs as operating cash flows in the Unaudited Condensed Consolidated Statement of Cash Flows. FAS No. 123(R) requires these cash flows be classified as financing cash flows. CTS has classified $26,000 and $15,000 of these excess tax benefits as financing cash flows for the periods ending April 2, 2006 and April 3, 2005, respectively.

At April 2, 2006, CTS had five equity-based compensation plans: the 1988 Restricted Stock and Cash Bonus Plan (1988 Plan), the 1996 Stock Option Plan (1996 Plan), the 2001 Stock Option Plan (2001 Plan), the Nonemployee

Directors' Stock Retirement Plan (Directors' Plan), and the 2004 Omnibus Long-Term Incentive Plan (2004 Plan). As of December 2004, additional grants can only be made under the 2004 Plan. CTS believes that equity-based awards align the interest of employees with those of its shareholders.

The 2004 Plan, and previously the 1996 Plan and 2001 Plan, provides for grants of incentive stock options or nonqualified stock options to officers, key employees, and nonemployee members of CTS' board of directors. In addition, the 2004 Plan allows for grants of stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other stock awards.

Table of Contents

The following table summarizes the compensation expense included in the Unaudited Condensed Consolidated Statement of Earnings for the three months ended April 2, 2006 and April 3, 2005 relating to these plans:

($ in thousands)	April 2, 2006	April 3, 2005
Stock options [(1)]	$ 223	$ 23
Restricted stock units	581	516
Restricted stock	61	78
Total	$ 865	$ 617

[(1)] *Stock option expense includes $14 and $23 in the quarters ending April 2, 2006 and April 3, 2005, respectively, related to non-employee director stock options.*

The following table summarizes the status of these plans as of April 2, 2006:

	2004 Plan	2001 Plan	1996 Plan
Awards originally available	6,500,000	2,000,000	1,200,000
Stock options outstanding	239,000	952,974	332,000
Restricted stock units outstanding	520,128	—	—
Awards exercisable	25,601	748,529	287,351
Awards available for grant	5,671,534	—	—

Stock Options

Stock options are exercisable in cumulative annual installments over a maximum 10-year period, commencing at least one year from the date of grant. Stock options are generally granted with an exercise price equal to the market price of the Company's stock on the date of grant. The stock options generally vest over four years and have a 10-year contractual life. The awards generally contain provisions to either accelerate vesting or allow vesting to continue on schedule upon retirement if certain service and age requirements are met. The awards also provide for accelerated vesting if there is a change in control event.

The Company estimates the fair value of the stock option on the grant date using the Black-Scholes option-pricing model and assumptions for expected price volatility, option term, risk-free interest rate, and dividend yield. Expected price volatilities are based on historical volatilities of the Company's stock. The expected option term is derived from historical data on exercise behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of the status of stock options as of April 2, 2006 and April 3, 2005, and changes during the three-month periods then ended, is presented below:

	April 2, 2006		April 3, 2005	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,567,499	$ 15.93	1,636,900	$ 16.82
Granted	—	—	—	—
Exercised	(16,000)	8.54	(8,725)	8.32
Expired	(20,475)	26.93	(31,601)	30.01

Forfeited	(7,050)		9.31	(6,274)	11.05
Outstanding at end of period [(1)]	1,523,974	$	15.89	1,590,300	$ 16.63
Exercisable at end of period	1,061,481	$	18.38	821,908	$ 21.52

[(1)] All options outstanding at April 2, 2006 are currently expected to vest.

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Table of Contents

The total intrinsic value of share options exercised during the quarters ended April 2, 2006 and April 3, 2005 was $65,000 and $38,000, respectively.

A summary of the weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and exercisable at April 2, 2006 is presented below:

	Weighted-average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding	7.71 years	—
Options exercisable	7.96 years	—

A summary of the nonvested stock options as of April 2, 2006 and April 3, 2005, and changes during the three-month periods then ended, is presented below:

	April 2, 2006		April 3, 2005	
	Options	Weighted-average Grant-Date Fair Value	Options	Weighted-average Grant-Date Fair Value
Nonvested at beginning of year	488,943	$ 6.94	792,716	$ 5.53
Granted	—	—	—	—
Vested	(19,400)	4.62	(18,060)	10.31
Forfeited	(7,050)	4.64	(6,274)	4.16
Nonvested at end of period	462,493	$ 7.06	768,392	$ 5.34

The total fair value of shares vested during the quarters ended April 2, 2006 and April 3, 2005 was $90,000 and $186,000, respectively. As of April 2, 2006, there was $869,000 of unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 1.7 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The following table summarizes information about stock options outstanding at April 2, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 4/2/06	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at 4/2/06	Weighted-Average Exercise Price
$ 7.70 - 11.11	929,099	7.31	$ 9.33	478,606	$ 8.66
14.02 - 16.24	144,800	5.93	14.37	132,800	14.34
23.00 - 33.63	344,325	4.78	24.56	344,325	24.56
35.97 - 50.00	104,250	4.45	47.05	104,250	47.05
56.94 - 79.25	1,500	3.53	64.38	1,500	64.38

12

Table of Contents

Restricted Stock Units

Stock settled restricted stock units (RSUs) entitle the holder to receive one share of common stock for each unit when the unit vests. RSUs are issued to officers and key employees as compensation. Generally, the RSUs vest over a five-year period. A summary of the status of RSUs as of April 2, 2006 and April 3, 2005, and changes during the three-month periods then ended is presented below:

	April 2, 2006		April 3, 2005	
	RSUs	Weighted-average Grant-Date Fair Value	RSUs	Weighted-average Grant-Date Fair Value
Outstanding at beginning of year	525,898	$ 11.49	252,000	$ 11.07
Granted	20,000	12.26	72,450	13.31
Settled	(12,310)	12.27	—	—
Cancelled	(13,460)	11.25	(4,950)	11.04
Outstanding at end of year	520,128	$ 11.51	319,500	$ 11.58
Weighted-average remaining contractual life	4.9 years		5.4 years	

As of April 2, 2006, there was $3.2 million of unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted-average period of 2.0 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Restricted Stock and Cash Bonus Plan

CTS' 1988 Plan originally reserved 2,400,000 shares of CTS' common stock for sale at market price, or award, to key employees. Under the 1988 Plan, 53,482 shares of Restricted Stock were outstanding as of April 2, 2006. Shares sold or awarded are subject to restrictions against transfer and repurchase rights of CTS. In general, restrictions lapse at the rate of 20% per year beginning one year from the grant date. In addition, the 1988 Plan provides for a cash bonus to the participant equal to the fair market value of shares on the dates restrictions lapse, in the case of an award. The total bonus paid to any participant during the restricted period is limited to twice the fair market value of the shares on the date of award or sale. As of April 2, 2006, there was $346,000 of total unrecognized compensation cost related to nonvested Restricted Stock. That cost is expected to be recognized over a weighted-average period of 1.7 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Stock Retirement Plan

The Directors' Plan provides for a portion of the total compensation payable to nonemployee directors to be deferred and paid in CTS stock. The Directors Plan was frozen effective December 1, 2004. All future grants will be from the 2004 Plan.

Table of Contents

NOTE D - Restructuring Charge

In January 2006, CTS announced its intention to consolidate its Berne, Indiana manufacturing operations into three of its other existing facilities. Automotive product operations at Berne will be transferred to CTS' automotive facilities in Matamoros, Mexico and Elkhart, Indiana. Electronic components operations in Berne will be moved to CTS' Singapore facility. Some electronic component related service functions are expected to remain in Berne. The consolidation process is expected to largely be completed in the second half of 2006.

The following table displays the cost associated with the Berne consolidation which are expected to be incurred, as well as a summary of the actual costs incurred through April 2, 2006:

($ in millions)	**Expected to be Incurred**	**Actual incurred through April 2, 2006**
Workforce reduction	$ 3.1	$ 1.7
Postemployment obligation curtailment, net - Note H	0.2	0.2
Other	0.1	—
Restructuring charge	3.4	1.9
Equipment relocation	0.3	—
Other employee related costs	0.3	0.2
Restructuring-related costs	0.6	0.2
Total restructuring and restructuring-related costs	$ 4.0	$ 2.1

All of the Berne consolidation costs relate to the Components and Sensors business segment. Restructuring charges are reported on a separate line on the Unaudited Condensed Consolidated Statement of Earnings and the restructuring-related costs are included in cost of goods sold.

The following table displays the restructuring reserve activity for the quarter ending April 2, 2006:

($ in millions)	
Restructuring liability at January 1, 2006	$ —
First quarter 2006 charge	2.1
Costs paid	(0.4)
Restructuring liability at April 2, 2006	$ 1.7

NOTE E—Acquisition

Effective January 31, 2005, CTS acquired 100% of SMTEK International Inc., (SMTEK). The results of SMTEK's operations have been included in the consolidated financial statements since that date. SMTEK is an EMS provider serving original equipment manufacturers in the medical, industrial, instrumentation, telecommunications, security, financial services, automation, aerospace, and defense industries. SMTEK had four facilities located in Moorpark and Santa Clara, California; Marlborough, Massachusetts; and Bangkok, Thailand.

14

Table of Contents

The following table presents CTS' unaudited pro forma consolidated results of operations for the quarter ending April 3, 2005 as if the acquisition had been completed at the beginning of the period. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results.

($ in thousands, except per share amounts)	**Pro forma Three Months Ended April 3, 2005**
Revenues	$ 165,377
Net income	$ 3,561
Earnings per share:	
Basic	$ 0.10
Diluted	$ 0.09

NOTE F—Supplemental Schedule of Noncash Investing and Financing Activities

In 2005, the Company purchased all of the capital stock of SMTEK for $61.1 million. In conjunction with the acquisition, CTS issued common stock and assumed liabilities as follows (refer also to Note D, "Acquisition"):

($ in millions)	
Cash paid	$ 37.2
Fair value of stock issued	10.9
Liabilities assumed	32.8
Fair value of assets acquired	$ 80.9

NOTE G—Inventories

Inventories consist of the following:

($ in thousands)	**April 2, 2006 (as restated**	**December 31, 2005 (as restated)**
Finished goods	$ 11,231	$ 11,931
Work-in-process	12,928	15,660
Raw materials	36,836	33,037
Total inventories	$ 60,995	$ 60,629

NOTE H - Debt

Long-term debt was comprised of the following:

($ in thousands)	**April 2, 2006**	**December 31, 2005**
Revolving credit agreement, average interest rate of 6.5% (2006) and 6.1% (2005) due in 2007	$ 2,000	$ 2,080
Convertible, senior subordinated debentures at a weighted-average rate of 2.125%, due in 2024	60,000	60,000
Convertible, subordinated debentures at a weighted-averaged rate of 6.5%, due in 2007	5,500	5,500
Term loan, interest 5.8%, due in 2011	878	875
Other debt, weighted-average rate of 6.3% (2005) due 2006	—	2
	68,378	68,457
Less current maturities	170	164
Total long-term debt	$ 68,208	$ 68,293

Table of Contents

CTS has a $75 million senior, secured revolving credit agreement that had an outstanding balance of $2.0 million at April 2, 2006. Any outstanding balances under the revolving credit agreement are senior to CTS' convertible debentures. The revolving credit agreement is collateralized by substantially all U.S. assets and a pledge of 65% of the capital stock of certain non-U.S. subsidiaries. Interest rates on the revolving credit agreement fluctuate based upon LIBOR. CTS pays a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on performance under certain financial covenants and was 0.38 percent per annum at April 2, 2006. The revolving credit agreement requires, among other things, that CTS comply with minimum fixed charge coverage, maximum leverage ratio, and minimum tangible net worth covenants. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. Additionally, the revolving credit agreement limits the amounts allowed for capital expenditures and acquisitions. In March 2006, CTS amended its revolving credit agreement to increase the permitted level of unsecured debt under other agreements and to modify restrictions on dividends and other distributions. The revolving credit agreement expires in July 2007.

CTS has $60 million convertible senior subordinated debentures (2.125% Debentures). These unsecured debentures bear interest at an annual rate of 2.125%, payable semiannually on May 1 and November 1 of each year through the maturity date of May 1, 2024. The 2.125% Debentures are convertible, under certain circumstances, into CTS common stock at a conversion price of $15.00 per share (which is equivalent to an initial conversion rate of approximately 66.6667 shares per $1,000 principal amount of the notes). Upon conversion of the 2.125% Debentures, in lieu of delivering common stock, the Company may, at its discretion, deliver cash or a combination of cash and common stock.

The conversion price of the 2.125% Debentures will be adjusted if CTS completes certain transactions, including: distribution of shares as a dividend to substantially all shareholders; subdivision, combination or reclassification of its common stock; distribution of stock purchase warrants to substantially all shareholders; distribution of cash, stock or property to shareholders in excess of $0.03 per share; or purchase of its common stock pursuant to a tender offer or exchange offer under certain circumstances.

Holders may convert the 2.125% million Debentures at any time during a conversion period if the closing price of CTS common stock is more than 120% of the conversion price ($18.00 per share) for at least 20 of the 30 consecutive trading days immediately preceding the first trading day of the conversion period. The conversion periods begin on February 15, May 15, August 15, and November 15 of each year. Holders may also convert the notes if certain corporate transactions occur. As of April 2, 2006, none of the conditions for conversion of the 2.125% million Debentures were satisfied.

CTS may, at its option, redeem all or a portion of the 2.125% Debentures for cash at any time on or after May 1, 2009, at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest at the redemption date. Holders may require CTS to purchase for cash all or part of their notes on May 1, 2009, 2014, and 2019, or upon the occurrence of certain events, at 100% of the principal amount of the notes plus accrued and unpaid interest up to, but not including, the date of purchase.

CTS has a registration rights agreement relating to the 2.125% Debentures which became effective in 2004. CTS' obligation to keep the registration statement continuously effective for a period of two years will expire in May 2006. The registration rights agreement provides that in the event of a default in this obligation, CTS is subject to an additional interest penalty of 0.25% per annum of the principal for the first 90 days of default and 0.5% per annum of principal thereafter. If a holder converts during a period of default, in lieu of additional interest CTS must deliver 103% of the number of shares the holder would otherwise have received in settlement. As of April 2, 2006, the maximum additional interest which CTS could incur as a result of the failure to maintain an effective registration statement was approximately $20,000.

The Company has $5.5 million of 6.5% convertible, subordinated debentures (6.5% Debentures) outstanding at April 2, 2006. These debentures are unsecured and convert into CTS common stock at a conversion price of $20.05 per share. At any time after April 2005, the purchasers may accelerate the maturity of the debentures. CTS also has the right at any time after April 2005, and under certain circumstances including a volume weighted average price greater than the conversion price by more than 175% for at least twenty trading days, to force conversion of the debentures into common stock. Interest on the debentures is payable semi-annually.

The conversion price of the 6.5% Debentures will be adjusted if CTS completes certain transactions, including: a common stock split or similar event; a distribution of stock purchase warrants to substantially all shareholders; a distribution of non-cash assets to substantially all shareholders; a cash distribution to substantially all shareholders which together with other cash distributions during the preceding year totals in excess of 3% of the market price of common stock; or a merger or other transaction under which shares of common stock are converted into another class of stock or security or into the securities of another corporation.

While any of the 6.5% Debentures are outstanding, CTS is subject to covenants which among other things, restrict its ability to pay dividends, repurchase stock, make payments on debt which ranks junior to the 6.5% Debentures and engage in certain transactions with subsidiaries and affiliates. CTS' obligation under a registration right agreement to maintain an effective registration statement for the stock underlying the 6.5% Debentures expired in 2004.

In connection with the acquisition of SMTEK, CTS assumed a term loan, which has a balance of $0.9 million at April 2, 2006. The term loan is secured by machinery and equipment of the Thailand manufacturing facility and requires monthly payments through May 2011.

Table of Contents

NOTE I—Retirement Plans

Net pension (income) / postretirement expense for the three months ended April 2, 2006 and April 3, 2005 includes the following components:

	Pension Plans		Other Postretirement Benefit Plans	
($ in thousands)	**April 2, 2006**	**April 3, 2005**	**April 2, 2006**	**April 3, 2005**
Service cost	$ 1,276	$ 1,318	$ 4	$ 7
Interest cost	3,012	2,846	75	79
Expected return on plan assets [1]	(6,175)	(6,318)	—	—
Amortization of unrecognized:				
Transition obligation	—	(76)	—	—
Prior service cost	134	184	—	—
Recognized (gain) loss	644	206	—	—
Curtailment loss	325	475	(81)	—
(Income)/expense, net	$ (784)	$ (1,365)	$ (2)	$ 86

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

In the first quarter of 2006, CTS recognized a pension plan curtailment loss of approximately $0.3 million and another postretirement benefit plan curtailment gain of approximately $0.1 million due to reduced employment levels. Also, effective April 1, 2006, CTS closed one of its U.S. defined benefit plans to new participants.

NOTE J—Business Segments

FAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” requires companies to provide certain information about their operating segments. CTS has two reportable business segments: 1) Electronics Manufacturing Services (EMS) and 2) Components and Sensors.

EMS includes the higher level assembly of electronic and mechanical components into a finished subassembly or assembly performed under a contract manufacturing agreement with an OEM or other contract manufacturer. Additionally, for some customers, CTS provides full turnkey manufacturing and completion including design, bill-of-material management, logistics, and repair.

Components and sensors are products which perform specific electronic functions for a given product family and are intended for use in customer assemblies. Components and sensors consist principally of automotive sensors and actuators used in commercial or consumer vehicles; electronic components used in communications infrastructure and computer markets; terminators, including ClearONE™ terminators, used in computer and other high speed applications, switches, resistor networks, and potentiometers used to serve multiple markets.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in the Company’s annual report on Form 10-K. Management evaluates performance based upon segment operating earnings before restructuring and related charges, interest expense, other non-operating income, and income tax expense.

Table of Contents

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

($ in thousands)	EMS	Components and Sensors	Total
First Quarter of 2006 (as restated)			
Net sales to external customers	$ 82,865	$ 67,628	$ 150,493
Segment operating earnings	(781)	10,499	9,718
Total assets	154,041	384,227	538,268
First Quarter of 2005			
Net sales to external customers	$ 91,166	$ 64,164	$ 155,330
Segment operating earnings	2,131	3,540	5,671
Total assets	166,481	428,160	594,641

Reconciling information between reportable segments' operating earnings and CTS' consolidated pre-tax income is shown in the following table:

($ in thousands)	First Quarter 2006 (as restated)	First Quarter 2005
Total segment operating earnings	$ 9,718	$ 5,671
Restructuring and related charges - Components and Sensors	(2,121)	—
Interest expense	(1,111)	(1,717)
Interest income	125	419
Other income	3	26
Earnings before income taxes	$ 6,614	$ 4,399

NOTE K—Contingencies

Certain processes in the manufacture of CTS' current and past products create hazardous waste by-products as currently defined by federal and state laws and regulations. CTS has been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, generator groups, that it is or may be a Potentially Responsible Party (PRP) regarding hazardous waste remediation at several non-CTS sites. In addition to these non-CTS sites, CTS has an ongoing practice of providing reserves for probable remediation activities at certain of its manufacturing locations and for claims and proceedings against CTS with respect to other environmental matters. In the opinion of management, based upon presently available information relating to all such matters, either adequate provision for probable costs has been made, or the ultimate costs resulting will not materially affect the consolidated financial position, results of operations, or cash flows of CTS.

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

Table of Contents

NOTE L—Earnings Per Share

FAS No. 128, “Earnings per Share,” requires companies to provide a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. The calculations below provide net earnings, average common shares outstanding, and the resultant earnings per share for both basic and diluted EPS for the quarters ending April 2, 2006 and April 3, 2005.

($ in thousands, except per share amounts)	Net Earnings (Numerator)	Shares (in thousands) (Denominator)	Per Share Amount
First Quarter 2006 (as restated)			
Basic EPS	$ 5,040	35,821	$ 0.14
Effect of dilutive securities:			
Convertible debt	241	4,000	
Equity-based compensation plans		413	
Diluted EPS	$ 5,281	40,234	$ 0.13
First Quarter 2005			
Basic EPS	$ 3,387	36,398	$ 0.09
Effect of dilutive securities:			
Convertible debt	250	4,000	
Equity-based compensation plans		581	
Diluted EPS	$ 3,637	40,979	$ 0.09

The following table shows the potentially dilutive securities which have been excluded from the first quarter 2006 and 2005 dilutive earnings per share calculation because they are either anti-dilutive, or the exercise price exceeds the average market price.

	Three Months Ended	
(Number of shares in thousands)	April 2, 2006	April 3, 2005
Stock options where the assumed proceeds exceed the average market price of common shares during the period	834	713
Securities related to the 6.5% convertible debentures	274	1,247

NOTE M - Leases

CTS incurred approximately $1.3 million and $1.9 million of rent expense in the quarters ending April 2, 2006 and April 3, 2005, respectively. The future minimum lease payments under the Company’s operating leases are $3.6 million for the remainder of 2006, $4.7 million in 2007, $4.0 million in 2008, $3.8 million in 2009, $2.4 million in 2010, and $3.7 million thereafter.

19

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial data and financial statements included in this Form 10-Q/A have been restated to reflect adjustments to previously reported quarterly financial data for the period ended April 2, 2006 and year-end financial data for the period ended December 31, 2005. (See Note B - "Restatement of Condensed Consolidated Financial Statements" for additional information.) This information should be considered in conjunction with the information contained in the condensed consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q/A.

Overview

CTS is a global manufacturer of components and sensors used primarily in the automotive, communications, and computer markets. The Company also provides electronic manufacturing solutions, including design and supply chain management functions, primarily serving the communications, computer, industrial, and medical markets under contract arrangements with the original equipment manufacturers (OEMs). Sales and marketing are accomplished through CTS sales engineers, independent manufacturer's representatives, and distributors. Sales are reported through two business segments, Electronics Manufacturing Services (EMS) and Components and Sensors.

In the first quarter of 2006, sales of EMS and Components and Sensors business segments represented 55.1% and 44.9% of CTS' total sales respectively, compared to 58.7% and 41.3% respectively in the first quarter of 2005.

As discussed in more detail throughout the Management's Discussion and Analysis:

- Sales decreased by $4.8 million, or 3.1%, in the first quarter of 2006 from the first quarter of 2005. Sales in the EMS business segment decreased by 9.1% compared to the first quarter of 2005, while sales in the Components and Sensors business segment increased by 5.4% versus the first quarter of 2005.

- Gross margins, as a percent of sales, were 20.0% and 18.2% in the first quarter of 2006 and 2005, respectively. The overall increase in gross margins was due to favorable segment sales versus the first quarter of 2005 as well as increased gross margins within the Components and Sensors business segment. The Components and Sensors business segment, which inherently generates a higher gross margin, increased to 44.9% of total sales in the first quarter of 2006 compared to 41.3% of total sales in the same period of 2005. The gross margin increase was partially offset by decreased EMS gross margins from expenses incurred for new customer start-up, excessive freight costs, labor inefficiencies, and pricing pressures.

- The Company continued to reduce selling, general and administrative, and research and development expenses as a percent of sales. Despite the sales decrease from the first quarter of 2005, selling, general, and administrative expenses combined with research and development expenses decreased to 13.6% of total sales compared to 14.5% of total sales in the first quarter of 2005.

- For the first quarter of 2006, CTS changed the estimate of its full year 2006 effective tax rate from 24.1% to 23.8%.

- Net earnings were $5.0 million, or $0.13 per diluted share, in the first quarter of 2006 compared to $3.4 million, or $0.09 per diluted share, in the first quarter of 2005.

- The first quarter of 2006 included a $2.1 million pre-tax expense, or $0.04 per share, for restructuring and related charges associated with the consolidation of CTS' Berne, Indiana manufacturing operations into three of its other existing facilities (see Note D for additional information). Additionally, the first quarter of 2006 included a favorable insurance claim settlement of approximately $1.5 million pre-tax, or $0.03 per share.

20

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management believes that judgment and estimates related to the following critical accounting policies could materially affect its consolidated financial statements.

§ Estimating inventory valuation, the allowance for the doubtful accounts, and other accrued liabilities

§ Valuation of long-lived and intangible assets, and depreciation/amortization periods

§ Income taxes

§ Retirement plans

In the first quarter of 2006, there have been no changes in the above critical accounting policies, except that the following policy has been added in consideration of CTS' adoption of FAS No. 123(R), "Share based Payment," effective January 1, 2006.

Share-Based Compensation

Effective January 1, 2006, CTS adopted the provisions of FAS No. 123(R) which required CTS to recognize the expense related to the fair value of stock-based compensation awards in the Unaudited Condensed Consolidated Statement of Earnings. CTS elected to follow the modified prospective transition method allowed by FAS No. 123(R), and therefore, only applied the provisions of FAS No. 123(R) to awards modified or granted after January 1, 2006. In addition, for awards which were unvested as of January 1, 2006, CTS will recognize compensation expense in the Unaudited Condensed Consolidated Statement of Earnings over the remaining vesting period. Prior to January 1, 2006, CTS accounted for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees."

FAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option-pricing model. CTS uses the Black-Scholes option pricing model. A number of assumptions are used by the Black-Scholes option-pricing model to compute the grant date fair value, including expected price volatility, option term, risk-free interest rate, and dividend yield. Expected volatilities are based on historical volatilities of the Company's stock. The expected option term is derived from historical data on exercise behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Unaudited Condensed Consolidated Statement of Earnings. CTS' stock options primarily have a graded-vesting schedule. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. CTS' stock options generally contain provisions to either accelerate vesting or allow vesting to continue on schedule upon retirement if certain service and age requirements are met. As a result, equity-based compensation expense recorded in future income statements could fluctuate based on the terms of the awards, the assumptions used in the valuation model, or the status of those employees receiving awards.

21

Results of Operations

Comparison of First Quarter 2006 and First Quarter 2005

Business Segment Discussion

Refer to Note J, "Business Segments," for a description of the Company's business segments.

The following table highlights the business segment results for the three-month periods ending April 2, 2006 and April 3, 2005:

($ in thousands)	Components & Sensors	EMS	Consolidated Total
First Quarter 2006 (as restated)			
Sales	$ 67,628	$ 82,865	$ 150,493
Segment operating earnings	10,499	(781)	9,718
% of sales	15.5%	(0.9)%	6.4%
First Quarter 2005			
Sales	$ 64,164	$ 91,166	$ 155,330
Segment operating earnings	3,540	2,131	5,671
% of sales	5.5%	2.3%	3.7%

Sales in the Components and Sensors business segment were up $3.5 million, or approximately 5.4% from the first quarter of 2005. The increase in sales was attributable primarily to growth in automotive product sales, growth in the sale of electronic components into infrastructure applications, and increased royalty revenue partially offset by a decrease of sales into mobile handset applications as CTS continues to de-emphasize these products.

The Components and Sensors business segment operating earnings were $10.5 million in the first quarter of 2006 versus $3.5 million in the first quarter of 2005. Operating earnings in the first quarter of 2006 included a favorable insurance claim settlement of approximately $1.5 million, or $0.03 per share. Other operating earning improvements resulted from personnel savings related to headcount reductions taken primarily in the first quarter of 2005, margin contribution from the higher sales volume, favorable product mix as the sales shifted from the less profitable handset market into the more profitable infrastructure applications and automotive products, and increased royalty revenue. In the first quarter of 2006, CTS has recorded pension income of $0.8 million in operating income. This amount includes $0.3 million of pension curtailment losses associated with the Berne consolidation, which are included in the restructuring charge discussed above. The remaining $1.1 million of pension income compares to $1.4 million of pension income recorded in the first quarter of 2005. The decrease from prior year results primarily from the amortization of losses resulting from lower pension returns than expected in prior years in the U.S. Plans. The increase in the loss amortization expense item from 2005 to 2006 is a result of a change in mortality assumption (resulting in longer life expectancies), actual plan experience being less favorable than expected, and the amortization of deferred asset losses from prior years.

The EMS business segment experienced a sales decrease of $8.3 million, or 9.1%, in the first quarter of 2006 versus the first quarter of 2005. The decrease in sales was attributable primarily to lower sales into the computer market.

The EMS business segment operating earnings decreased $2.9 million primarily due to decreased EMS gross margins from expenses incurred for new customer start-up, excessive freight costs, labor inefficiencies, pricing pressures, lower sales volumes and the incremental costs related to the full quarter of expense in 2006 versus two months of expense in 2005 for the January 31, 2005 SMTEK acquisition.

22

Total Company Discussion

The following table highlights changes in significant components of the unaudited condensed consolidated statements of earnings for the three-month periods ended April 2, 2006 and April 3, 2005:

	Three months ended		
($ in thousands, except net earnings per share)	**April 2, 2006 (as restated)**	**April 3, 2005**	**Increase (Decrease)**
Net sales	$ 150,493	$ 155,330	$ (4,837)
Restructuring-related costs	159	-	159
	0.1%	-%	0.1%
Gross margin	30,041	28,215	1,826
% of net sales	20.0%	18.2%	1.8%
Selling, general and administrative expenses	16,390	17,757	(1,367)
% of net sales	10.9%	11.4%	(0.5)%
Research and development expenses	4,092	4,787	(695)
% of net sales	2.7%	3.1%	(0.4)%
Restructuring charge	1,962	-	1,962
% of net sales	1.3%	-%	1.3%
Operating earnings	7,597	5,671	1,926
% of net sales	5.0%	3.7%	1.3%
Income tax expense	1,574	1,012	562
Net earnings	$ 5,040	$ 3,387	$ 1,653
% of net sales	3.3%	2.2%	1.1%
Net earnings per share - diluted	$ 0.13	$ 0.09	$ 0.04

First quarter sales of $150.5 million decreased $4.8 million, or 3.1%, from the first quarter of 2005. The decrease was mainly attributable to lower sales in the computer market in the EMS business segment. The Components and Sensors business segment partially offset the sales decrease with higher sales of automotive products, higher sales of electronic components into infrastructure applications, and higher revenue from royalties.

Gross margin increased $1.8 million in the first quarter of 2006 from the first quarter of 2005 due to favorable business segment sales mix and gross margin improvement in the Components and Sensors business segment. The Components and Sensors business segment, which inherently generates a higher gross margin, increased to 44.9% of total sales in the first quarter of 2006 compared to 41.3% of total sales in the same period of 2005 due mainly to sales growth in automotive sensor products. The gross margin increase was partially offset by decreased EMS gross margins resulting from expenses incurred for new customer start-up, excessive freight costs, labor inefficiencies, and pricing pressures.

23

Selling, general and administrative expenses were $16.4 million, or 10.9% of sales, in the first quarter of 2006 versus $17.8 million, or 11.4% of sales in the first quarter of 2005. Selling, general and administrative expenses were favorably impacted by an insurance claim settlement received in the first quarter of 2006 and by personnel reductions taken primarily in the first quarter of 2005.Research and development expenses were $4.1 million, or 2.7% of sales in the first quarter of 2006 versus $4.8 million, or 3.1% of sales in the first quarter of 2005. The percentage decrease was primarily due to personnel savings related to headcount reductions taken primarily in the first quarter of 2005 mainly in the Components and Sensors business segment. Research and development expenditures in the EMS business segment are typically much lower than in the Components and Sensors business segment. Significant ongoing research and development activities continue in Components and Sensors to support expanded application and new product development.

Operating earnings were $7.6 million in the first quarter of 2006 compared to $5.7 million in the first quarter of 2005. The increase in operating earnings included $2.1 million of expenses, or $0.04 per share, from restructuring and related charges associated with the consolidation of CTS' Berne, Indiana manufacturing operations and also included the favorable impact from an insurance claim settlement of approximately $1.5 million, or $0.03 per share. In the first quarter of 2006, CTS has recorded pension income of $0.8 million in operating income. This amount includes $0.3 million of pension curtailment losses associated with the Berne consolidation, which are included in the restructuring charge shown above. The remaining $1.1 million of pension income compares to $1.4 million of pension income recorded in the first quarter of 2005. The decrease from prior year results primarily from the amortization of losses resulting from lower pension returns than expected in prior years in the U.S. Plans. The increase in the loss amortization expense item from 2005 to 2006 is a result of a change in mortality assumption (resulting in longer life expectancies), actual plan experience being less favorable than expected, and the amortization of deferred asset losses from prior years.

During the first quarter of 2006, CTS changed the estimate of its full year effective tax rate from 24.1% to 23.8%. The lower tax rate reflects tax savings resulting primarily from lower earnings in certain higher-tax jurisdictions.

In 2005, CTS changed its estimate of its 2005 tax rate before the benefit of reversal of reserves and expense of HIA dividend from 23% to 24.1%. The higher effective tax rate reflects the lower than planned revenue and profitability in certain jurisdictions with lower statutory tax rates partially offset by increased profitability in certain jurisdictions with higher statutory tax rates.

Net earnings of $5.0 million, or 3.3% of sales, increased $1.7 million versus the first quarter of 2005. Net earnings per share of $0.13 were $0.04 higher than first quarter 2005.

Outlook

In our Quarterly Report on Form 10-Q for the three-month period ended April 2, 2006, filed on April 26, 2006 (the "Original Filing"), we provided an outlook of sales and earnings for the full year 2006. Due to the timing of the filing of this 10Q/A, it is not meaningful to provide an outlook for 2006. Refer to the Company's Annual Report on Form 10-K for financial results for the year ended December 31, 2006.

The following table provides a reconciliation of actual earnings per share, diluted to adjusted actual earnings per share, diluted for the Company:

	Actual Three Months Ended	
	April 2, 2006 (as restated)	**April 3, 2005**
Earnings per share, diluted	$ 0.13	$ 0.09
Tax affected charges to reported diluted earnings per share:		
Restructuring and related charges	0.04	-
Adjusted earnings per share, diluted	$ 0.17	$ 0.09

Adjusted earnings per share, diluted is a non-GAAP financial measure. The most directly comparable GAAP financial measure is earnings per share, diluted. CTS calculated adjusted earnings per share, diluted for the first quarter of 2006 to exclude the per share impact of restructuring and related charges associated with the Berne facility consolidation. We exclude the impact of this item because it was a discrete event that had a significant impact on comparable GAAP financial measures and could distort an evaluation of our normal operating performance. CTS uses adjusted earnings per share, diluted, to evaluate overall performance, establish plans and perform strategic analysis. Using adjusted earnings per share, diluted avoids distortion in the evaluation of operating results by eliminating the impact of events that are not related to normal operating performance. Because adjusted earnings per share, diluted is based on the exclusion of specific items, it may not be comparable to measures used by other companies that have similar titles. CTS' management compensates for this limitation when performing peer comparisons by evaluating both GAAP and non-GAAP financial measures reported by peer companies. CTS believes that adjusted earnings per share, diluted is useful to its management, investors and stakeholders in that it:

- provides a truer measure of CTS' operating performance,
- reflects the results used by management in making decisions about the business, and
- helps review and project CTS' performance over time.

We recommend that investors consider both actual earnings per share, diluted and actual adjusted earnings per share, diluted measures in evaluating the performance of CTS with peer companies.

Liquidity and Capital Resources

Overview

Cash and cash equivalents were $12.6 million at April 2, 2006 compared to $12.0 million at December 31, 2005. Total debt on April 2, 2006 was $82.5 million, substantially unchanged from $81.8 million at the end of 2005. Total debt as a percentage of total capitalization was 19.8% at the end of the first quarter of 2006, compared with 20.0% at the end of 2005.

Working capital increased $8.6 million in the first quarter of 2006 versus December of 2005, primarily driven by the following:

· Other current assets increased by $3.4 million, which included a non-trade receivable for royalties of $1.2 million and a $0.8 million related to non-trade receivables for lease deposit refunds.

· Accounts receivables increased by $3.2 million. The primary drivers for the increase were $2.5 million due to the Delphi bankruptcy proceedings and slower payments from other key customers.

· Inventory increased by $0.4 million due to increased buffer stock for the Berne product transition and inventory builds related to anticipated new customer demand in the EMS business segment.

· Accounts payable decreased by $2.5 million primarily driven by the EMS business segment sales decrease.

W Working capital increases were partially offset by:

· Accrued liabilities increased by $0.6 million primarily driven by increased accrued payroll, deductions and benefits.

Cash Flow

Operating Activities (restated)

Net cash provided by operating activities was $2.6 million for the first quarter of 2006. Components of net cash provided by operating activities included net earnings of $5.0 million, depreciation and amortization expense of $6.7 million and equity-based compensation of $0.9 million partially offset by unfavorable changes in assets and liabilities of $10.0 million. The unfavorable changes in assets and liabilities were primarily due to increased accounts receivables of $3.2 million, an increase in other current assets of $2.9 million, an increase in prepaid pension asset of $1.2 million and a decrease in accounts payable and accrued liabilities of $1.8 million.

Net cash provided by operating activities was $10.9 million for the first quarter of 2005. Components of net cash provided by operating activities included net earnings of $3.4 million, depreciation and amortization expense of $6.8 million, equity-based compensation of $0.6 million and a $0.1 million favorable change in assets and liabilities. The favorable changes in assets and liabilities were primarily due to decreased accounts receivables of $2.1 million and an increase of $1.7 million in accounts payable and accrued liabilities. The unfavorable changes in assets and liabilities were primarily due to the $2.2 million increase in other current assets and the $1.9 million increase in prepaid pension asset.

Total free cash flow in the first quarter of 2006 was $0.1 million. Total free cash flow in the first quarter of 2005 was $7.9 million.

Free cash flow is a non-GAAP financial measure which CTS defines as net cash provided by operations less capital expenditures. The most comparable GAAP measure is net cash provided by operations. CTS' management uses free cash flow to evaluate financial performance and in strategic planning, specifically, for investing and financing decisions. CTS' management believes free cash flow is a useful measure because it indicates the ability of a business operation to fund its own required capital investments. CTS' management believes that the non-GAAP measure free cash flow is useful to investors because it reflects the performance of its overall operations more accurately than net cash provided by operations and because it provides investors with the same results that management uses as the basis for making decisions about the business. Free cash flow is not an indicator of residual cash available for discretionary spending, because it does not take into account mandatory debt service or other non-discretionary spending requirements which are not deducted in the calculation of free cash flow. CTS' management takes these limitations into account when using free cash flow to make investing and financing decisions.

The following table summarizes free cash flow for CTS:

	Three Months Ended	
($ in millions)	**April 2, 2006**	**April 3, 2005**
Net cash provided by operations	$ 2.6	$ 10.9
Capital expenditures	(2.5)	(3.0)
Free cash flow	$ 0.1	$ 7.9

Net cash used in investing activities were $2.0 million for the first quarter of 2006, including $2.5 million used for capital expenditures partially offset by $0.5 million in proceeds for sale of assets.

Net cash used in investing activities totaled $38.1 million in the first quarter of 2005. The cash used for the SMTEK acquisition was $35.6 million, and capital expenditures were $3.0 million.

Net cash used in financing activities for the first quarter of 2006 were $0.3 million, consisting primarily of $1.1 million in dividend payments partially offset by $0.8 million in increased short-term notes payable.

Net cash provided by financing activities were $24.9 million in first quarter of 2005, including net proceeds of $38.9 million from borrowings offset by the repayment of debt of $13.0 million assumed in the SMTEK acquisition, and $1.1 million in dividends to shareholders.

Capital Resources

Refer to Note H, “Debt,” for further discussion.

CTS has a $75 million senior, secured revolving credit agreement that had an outstanding balance of $2.0 million at April 2, 2006. Any outstanding balances under the revolving credit agreement would be senior to CTS’ convertible debentures. The revolving credit agreement is collateralized by substantially all U.S. assets and a pledge of 65% of the capital stock of certain non-U.S. subsidiaries. Interest rates on the revolving credit agreement fluctuate based on LIBOR. CTS pays a commitment fee on the undrawn portion of the credit agreement. The commitment fee varies based on performance under certain financial covenants and is currently 0.38 percent per annum. The revolving credit agreement requires, among other things, that CTS comply with a minimum fixed charge coverage ratio, a maximum leverage ratio, and a minimum tangible net worth covenants. As of April 2, 2006, CTS was in compliance with these covenants. Failure of CTS to comply with these covenants could reduce the borrowing availability under the credit agreement. Additionally, the credit agreement limits the amounts allowed for dividends, capital expenditures, and acquisitions. In March 2006, CTS amended its revolving credit agreement to increase the permitted level of unsecured debt under other agreements and to modify restrictions on dividends and other distributions. The credit agreement expires in July 2007.

CTS believes cash flows from operating activities and available borrowings under its Credit Facility will be adequate to fund its working capital and capital expenditure requirements. CTS may choose to pursue additional equity and/or debt financing to fund acquisitions and/or to reduce its overall interest expense or improve its capital structure.

In November 2005, CTS’ Board of Directors authorized a program to repurchase up to one million shares of stock. The authorization expires June 30, 2007. The previously authorized one million share repurchase program dated July 2004 was completed in the fourth quarter of 2005. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During the first quarter of 2006, CTS repurchased 1,500 shares at a total cost of $18,762. At April 2, 2006, CTS was authorized to repurchase approximately 859,100 additional shares.

In November 2001, CTS’ Form S-3 registration statement registering two million shares of CTS common stock to be issued under the CTS’ Direct Stock Purchase Plan was declared effective by the Securities and Exchange Commission. In November 2005, CTS terminated this direct stock purchase plan under this registration statement.

On December 14, 1999, CTS’ shelf registration statement on Form S-3 was declared effective by the Securities and Exchange Commission. CTS could initially offer up to $500.0 million in any combination of debt securities, common stock, preferred stock or warrants under the registration statement. During the first three months of 2006, CTS did not issue any securities under this registration statement. As of April 2, 2006, CTS could offer up to $435.1 million of additional debt and/or equity securities under this registration statement.

Capital Requirements

The following table sets forth the impact that contractual obligations, as of April 2, 2006, are expected to have on the Company's liquidity and cash flow in future periods:

	Payments Due by Period				
($ in millions)	**Total**	**2006**	**2007 - 2008**	**2009 - 2010**	**2011 - beyond**
Long-term debt *(1)*	$ 92.1	1.4	$ 10.5 *(2)*	$ 2.9	$ 77.3 *(3)*

Operating leases	18.5	3.4	5.7	4.2	5.2
Purchase obligations	—	—	—	—	—
Retirement obligations	15.5	1.1	3.1	3.2	8.1
	$ 126.1	$ 5.8	$ 19.3	$ 10.3	$ 90.6

(1) *Including principal and coupon payments of the 6.5% Debentures issued in 2002, principal and coupon payments of 2.125% Debentures issued in 2004, and principal payment of the revolving credit agreement.*

(2) *Including 6.5% Debentures issued in 2002 and $2.1 million outstanding under the revolving credit agreement. For the 6.5% Debentures, the investors may accelerate the maturity of the debentures at any time after the three-year anniversary of the issue date. These debentures convert into CTS common stock at a conversion price of $20.05 per share.*

(3) *2.125% Debentures issued in May 2004. Investors may convert the debentures, under certain circumstances, at any time to CTS common stock. The conversion price is $15.00 per common share.*

Purchase obligations are defined as agreements that are enforceable and legally binding on CTS and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. CTS purchases direct materials, generally related to customer orders, for production occurring at its manufacturing facilities around the world. These goods are secured using purchase orders, either blanket or discrete. Purchase orders commit CTS to take delivery of the quantities ordered generally over a specified delivery schedule. CTS' standard purchase order terms and conditions state that, should CTS cancel an order, CTS will reimburse its supplier only for the costs incurred at the time of cancellation. CTS' purchase order cancellations generally occur due to order cancellation by a customer. If a customer cancels its order, CTS' standard terms of sale provide for reimbursement of costs, including those related to CTS' purchase orders. Therefore, these commitments are not included in purchase obligations.

Retirement obligations include defined benefit and other post-retirement benefits. Please refer to "Note H —Retirement Plans" for additional information related to the retirement plans, including the important assumptions.

Off-Balance Sheet Arrangements

CTS incurred approximately $1.3 million and $1.9 million of rent expense in the quarters ending April 2, 2006 and April 3, 2005, respectively. The future minimum lease payments under the Company's operating leases are $3.6 million for the remainder of 2006, $4.7 million in 2007, $4.0 million in 2008, $3.8 million in 2009, $2.4 million in 2010, and $3.7 million thereafter.

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Forward-Looking Statements

Statements about the Company's earnings outlook and its plans, estimates and beliefs concerning the future are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's expectations, certain assumptions and currently available information. Actual results may differ materially from those reflected in the forward-looking statements due to a variety of geopolitical, economic, health, industry and other factors which could affect the Company's operating results, liquidity and financial condition. We undertake no obligations to publicly update or revise any forward-looking statement. Examples of factors which may affect future results include, but are not limited to: rapid technological change, general market conditions in the automotive, communications and computer industries; reliance on key customers; 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. Investors are encouraged to examine the Company's 2005 Form 10-K, which more fully describes the risks and uncertainties associated with the Company's business.

28

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no other material changes in CTS' market risk since December 31, 2005.

Item 4. Controls and Procedures

CTS' management is responsible for establishing and maintaining effective disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). As discussed in Note B to the condensed consolidated financial statements, included in this Quarterly Report on Form 10-Q/A are restated condensed consolidated financial statements for the quarterly period ended April 2, 2006. In addition, CTS has amended its condensed consolidated financial statements for the quarterly periods ended July 2, 2006 and October 1, 2006.

The decision to restate these financial statements resulted from management's discovery of accounting misstatements made by the controller of CTS' Moorpark, California location. This discovery was made in the process of anwering inquiries during the annual external audit. In its assessment of internal control over financial reporting for the year ended December 31, 2006, CTS' management concluded that the misstatements reflected a material weakness in CTS' internal control over financial reporting.

The following control deficiencies, on a combined basis, resulted in the material weakness:

- Monitoring and accountability over the operating effectiveness of controls including effective operation of designed controls over reconciliations, journal entry approval and oversight.
- Ability to set-up fictious vendors and ability to make payments to vendors without appropriate support and approval.
- Lack of effectiveness of the internal audit function to obtain an understanding of process and controls at the Moorpark and Santa Clara locations.

In its original filing on Form 10-Q for the quarter ended April 2, 2006, CTS' management concluded that CTS' disclosure controls and procedures were effective at a reasonable assurance level, based on an evaluation which did not include an assessment of the internal control over financial reporting of the former SMTEK International, Inc. locations, including the Moorpark and Santa Clara locations. In connection with this restatement, CTS' management, including its Chief Executive Officer and its Chief Financial Officer, have carried out a re-evaluation of CTS' disclosure controls and procedures, including the internal control over financial reporting at the SMTEK locations, as of the quarter ended April 2, 2006. Based on the determination that a material weakness in CTS' internal control over financial reporting existed, CTS' Chief Executive Officer and the Chief Financial Officer, have determined that CTS' disclosure controls and procedures were not effective as of April 2, 2006.

Changes in Internal Control Over Financial Reporting

There were no changes in CTS' internal control over financial reporting for the quarter ended April 2, 2006 that have materially affected or are reasonably likely to materially affect CTS' internal control over financial reporting.

Prior to identifying the material weaknesses described above, CTS' management had taken actions to strengthen the Moorpark and Santa Clara accounting organization by adding two experienced personnel and reassigning duties. Since identifying the material weakness, CTS has implemented the following changes to strengthen its internal controls over financial reporting:

- Increased review and approval of all manual journal entries by the entity controllers.

- Increased review and approval of all account reconciliation activities by the entity controllers.
- Added a senior Corporate resource to provide additional review and oversight of all key accounting processes globally, including manual journal entries and key account reconciliations.
- Increased internal audit resources and revised internal audit programs to increase the scope and frequency of audits.

CTS intends to implement the following changes over the course of 2007 to further strengthen its internal control environment:

- Enhance and document CTS' annual vendor certification process.
- Strengthen operating policies around pricing adjustments, customer returns, vendor disputes, etc.
- Institute additional operational monitoring reports to review/track early warning signs e.g. short payments, premium freight, customer rejects, etc.
- Standardize and strengthen account reconciliation process.
- Further enhance the Moorpark and Santa Clara reporting system documentation and user training.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Certain processes in the manufacturer of CTS' current and past products create hazardous waste by-products as currently defined by federal and state laws and regulations. CTS has been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, generator groups that it is or may be a Potentially Responsible Party (PRP) regarding hazardous waste remediation at several non-CTS sites. In addition to these non-CTS sites, CTS has an ongoing practice of providing reserves for probably remediation activities at certain of its manufacturing locations and for claims and proceedings against CTS with respect to other environmental matters. In the opinion of management, based upon presently available information relating to all such matters, either adequate provision for probably costs has been made, or the ultimate costs resulting will not materially affect the consolidated financial position, results of operations or cash flows of CTS.

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

Item 1A. Risk Factors

There have been no significant changes in the Company's risk factors since December 31, 2005.

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

The following table summarizes the repurchases of CTS common stock made by the Company during the three months ended April 2, 2006:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Plans or Programs *(1)*	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
				860,600
February 27, 2006 - April 2, 2006	1,500	$ 12.51	1,500	859,100
Total	1,500	$ 12.51	1,500	

(1) In November 2005, CTS' Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market. The authorization expires June 30, 2007.

Table of Contents

Item 6. Exhibits

(10)(a)	Amendments to the CTS Corporation Pension Plan
(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.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CTS Corporation

/s/ Richard G. Cutter III
Richard G. Cutter III
Vice President, Secretary and
General Counsel

Dated: May 14, 2007

CTS Corporation

/s/ Vinod M. Khilnani
Vinod M. Khilnani
Senior Vice President and
Chief Financial Officer

Dated: May 14, 2007