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Moderator

Welcome to the CTS Corporation conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. As a reminder, this conference is being recorded today, Wednesday, November 17, 2004. I would now like to turn the conference over to our host, Mr. Donald Schwanz, President and CEO of CTS Corporation. Please go ahead, sir.

D. Schwanz

With me today are Vinod Khilnani, CTS Senior Vice-President and Chief Financial Officer; Don Schroeder, CTS Executive Vice-President; and Kirk Waldron, President of SMTEK International. Thank you all for joining us today.

Before beginning the business discussion, I would like to remind our listeners that the conference call contains forward-looking statements.

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These statements are subject to a number of risks and

uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Additional information regarding these risks and uncertainties were set forth in today's press release and more information can be found in the company's SEC filings. To the extent that today's discussion refers to any non-GAAP measures relative to Regulation G, the required explanations and reconciliation are available on our Web site in the Investor Relations section.

This morning we announced a definitive agreement to acquire SMTEK International, a NASDAQ listed electronic manufacturing services company headquartered in Moorpark, California just outside of Los Angeles and having operations in Marlborough, Massachusetts; Santa Clara, California; and Bangkok, Thailand, in addition to Moorpark. The agreement, which is subject to the approval of SMTEK shareholders, provides that CTS will acquire all outstanding shares of SMTEK with a combination of cash and CTS stock, as well as assume the outstanding debt of SMTEK.

Total consideration to be paid for each share of SMTEK is initially set at \$14.30 per share with 75% of this to be paid in cash and the remainder in

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CTS stock. However, the stock portion is subject to adjustment up or down based upon the trading value of CTS stock over the next 20 days. This adjustment is collared such that the total consideration, including cash and stock, can range between a low of \$14.20 per share and a maximum of \$15 per share.

SMTEK revenues in their last reported 12 months, which ended September 30, 2004, were \$102.4 million and operating earnings were \$4 million. As I noted, SMTEK is a provider of electronics manufacturing services. Their business model focuses on providing turnkey supply chain solutions to customers with high mix needs for complex electronic products. Primary markets served include medical, industrial and security, aerospace and defense, and communications. Customers include companies such as Medtronic, Achem, L-3 Communications, Raytheon, Phillips, Haas, Fuji Curra and Pentair.

SMTEK capabilities include design engineering and test services, building material management, printed circuit board assembly, and box build. SMTEK is an extremely well run operation with an excellent

customer base and strong management team and it is an excellent strategic fit with our EMS business.

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In assessing SMTEK as an EMS acquisition target, we focused on three strategies. First, strengthening our position as a provider of high mix turnkey EMS services; second, accelerating our expansion into industrial, medical and other growth markets that we felt were underserved; and third, positioning ourselves to more effectively serve the West Coast market and customers. SMTEK provides an excellent fit to all three of these strategies.

As regards the first strategy, to strengthen CTS as a provider of high mix EMS services, SMTEK's business model is to serve customers with high mix needs and complex products and they do this extremely well. They have key process certifications and know how in medical and aerospace and a broad base of skills and capabilities in complex printed circuit board operations including design and test development capability, and they have process expertise in applying these skills and capabilities to the benefits of customer with complex products and high mix needs.

About 80% of their revenues are derived from PCBA operations and 20% from box build. CTS is nearly the reverse with about 80% of our revenues from box build and 20% from printed circuit board operations. CTS also

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has extensive experience in direct ship service models. In combining, we are bringing together significant complimentary capabilities that can be leveraged across the combined business to better serve our customers and enable us to more readily attract new customers.

Clearly, the acquisition of SMTEK facilitates the second strategy, accelerating our expansion into new

markets. CTS's EMS business, as you may know, has largely been focused on customers in enterprise computing and communications, including networking. In the last year or so, we have been aggressively working to expand our EMS operations into new markets. We have had considerable success, winning over 15 new customers, including customers in the medical, industrial, security and automotive markets.

In contrast, about 15% of SMTEK's sales are from the communications market and only a couple of percent from computing. Most of their sales come from the medical, industrial and security, and aerospace markets, so the acquisition of SMTEK strongly positions us in several key markets where our complimentary capabilities are ideally suited to the customer.

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A third important strategy was to look for a strong presence on the West Coast where CTS has no EMS operating presence today. SMTEK, in contrast, has two operations there, one in Moorpark, outside of L.A., and the other in Santa Clara, up in Northern California. As a result of the combination, CTS will have strong operational capability on both coasts of the U.S. as well as in Europe and Asia. We believe this strategic combination positions CTS as a very strong global competitor for high mix EMS customers and expect that we should outgrow the market.

We also see the potential for operational efficiencies in the combination. These would come from leveraging shared services, cross utilization of resources such as engineering, capacity balancing, and the wider use of global purchasing leverage. We expect the deal to close in the first quarter next year and to be accretive in the first year of operation. Between now and the closing, we will be contacting the customers of both companies to more fully explain our plans and expectations. Clearly, we believe this deal is very positive for both CTS and SMTEK customers.

Additionally, we have established a joint integration team that will plan the integration of the two companies over the next several months thus allowing a very quick start to the integration process once the deal closes.

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I've asked Vinod Khilnani, our CFO, to provide some additional color on the transaction from a financial perspective.

V. Khilnani

Thanks, Don. As stated earlier, CTS announced this morning a definitive agreement to acquire all outstanding shares of SMTEK at a price between \$14.20 and \$15 per share plus assumption of all of its outstanding debt obligations. SMTEK has total outstanding shares of approximately 3.12 million, which include the equivalent shares of all outstanding options using the treasury method of calculation. The transaction will, therefore, have a total equity valuation in the range of \$44.3 million and \$46.8 million. Assuming the current level of debt obligation of around \$15 million, this will give us an estimated total enterprise value in the range of \$59 million and \$62 million.

The cash component of this transaction is expected to be approximately \$49 million with stock components of approximately \$10 million to \$12 million in value. Please note that if we assume a CTS stock price of \$13.50 this is expected to translate into 800,000 to 900,000 shares of CTS common stock, or less than 2.5% of our total outstanding diluted common shares.

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Funding for the total cash component of approximately \$50 million, which includes paying off all of the SMTEK debt obligations, is expected to come primarily from our current cash balances. Our debt to capital ratio, therefore, is expected to remain at the lower end of our target range of 20% to 30%. Please also note that 80% to 90% of our existing revolving credit facility is expected to remain unutilized and available to fund other future needs.

We expect this transaction to be \$0.02 to \$0.03 per share accretive in the first year. With that brief comment and description, I will hand it back to you, Don.

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D. Schwanz Thank you, Vinod. We are very excited about this acquisition and delighted to have SMTEK and all of those employees who have worked to make SMTEK successful join CTS. Now I will open the call to questions.

Moderator Our first question comes from the line of Ray Carpenter. Please state your company name followed by your questions.

R. Carpenter First question is could you provide a little more detail into the integration plans as far as IT systems and what have you? I think SMTEK's on a

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common IT system right now, but could you provide more detail into that and what your plans are there?

D. Schwanz Ray, there is a lot of this that still has to be worked out. As I said, we'll be putting together an integration team over the next week. That team will address all of those aspects that are typical to putting two companies together, everything from combining phone systems and how you mesh together the accounting and get the information back and forth to looking at processes and how we service customers and how the various sites work back and forth with each other. We don't have a lot of those details ironed out at this point in time.

R. Carpenter The core business of SMTEK, are their operating margins primarily superior to yours currently?

V. Khilnani They are equal to or better than our EMS business.

R. Carpenter There is going to be an opportunity once the combined entities are together that you may see a normalized improvement in operating margins for the business.

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D. Schwanz We may.

R. Carpenter The last question, did you see any synergies or any opportunity to improve working capital management

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maybe to free up some incremental cash in the near term?

- V. Khilnani I think at this point we are comfortable to say that their working capital ratios are very similar to our EMS business, so we don't see any major change from that point of view.
- R. Carpenter No overlap of customers?
- D. Schwanz Essentially, no; one minor overlap.
- R. Carpenter Thank you, guys.
- Moderator Our next question comes from the line of Scott Merlis. Please go ahead with your question.
- S. Merlis Congratulations. A question about marketing synergy and maybe manufacturing synergy, the acquisition gets you much deeper into medical

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and industrial. Can that translate to winning more medical and industrial customers into your existing facilities elsewhere?

- D. Schwanz Absolutely.
- S. Merlis The fact that you have West Coast facilities now, are there any existing customers that might need those facilities on the West Coast? I'm looking for marketing synergies and manufacturing synergies.
- D. Schwanz Let me take them a piece at a time. We already have customers that are from the industrial markets, medical markets, security markets, but in terms of the percent of our business, it's smaller. We do work in those markets. We have experience dealing with those kinds of customers, and as I mentioned, those markets are the primary markets for SMTEK.
- What we do is reinforce the strength and capabilities that we have with the customers in those markets. I think there is going to be a lot of synergy from that standpoint. We have different kinds of design strengths. As I mentioned, we've got direct ship capability. We can bring those complimentary strengths to the customer sets and I think it will make us much more competitive and allow us to go out and capture a lot of new business.

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D. Schwanz I think it will open up other opportunities. It's got a medical certification.

S. Merlis Thank you very much. I appreciate your answers

Moderator Our next question comes from the line of Lee Zeltser. Please go ahead with your question.

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L. Zeltser Guys, question on your business mix. First off, the company is increasingly prone in the direction of EMS now comprising the majority of your revenues. Can you talk about your plans for the business mix going forward?

V. Khilnani Lee, the business mix between our two segments is obviously going to change with this acquisition in the short and medium term. If you layer SMTEK revenues on top of ours and look back the last couple of quarters, our mix of EMS business will go from 50% of the company to approximately 60% of the company. We already stated that the profitability of SMTEK is equal to or higher than our EMS business, so from a segment point of view, it will improve the profitability.

Overall, if you combine the two businesses with higher mix of EMS business, there may be a slight negative impact on the operating margin percent, but as you know, we had stated earlier that because of the less capital intensity of this business our return on assets numbers would not be affected adversely. Actually, it will improve with the numbers we have for SMTEK, so that is a positive.

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L. Zeltser To follow up on that, you mentioned in the short to medium term it will be a little bit more than half of the revenue base. Directionally, is the company looking to build itself a larger presence in EMS than the component business, or is this kind of a temporary situation?

D. Schwanz

We don't look at it that way that we're trying to drive the EMS business to some certain percentage or the component sensors to a different percentage. We take the various markets that we serve with the products and the technology that we have and we pursue strategies intended to grow those pieces of the business profitably as rapidly as we can on a sustained basis. As you know from the things that we've said in the marketplace in the past, if you looked at the automotive market that we've served with our sensors and components, we're seeing extremely strong growth there and expect to continue to do that.

In the components markets, we've got some markets that are showing pretty rapid growth and some others that we have chosen to de-emphasize, so on aggregate that part of it is not growing quite as fast, but that doesn't say anything about our intent at all. You'll get slightly different growth factors, but there are clearly opportunities that we like in the sensors and components side of the business, as well as the EMS side of the business.

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That's why we've done this because we see it as a real attractive opportunity for the company.

L. Zeltser

You mentioned some of the cost synergies, in particular, give us a sense of those size of those synergies and how long it might take to achieve them.

V. Khilnani

Lee, they may be substantial, but at this point, we are not spelling those out. There are some which are obvious that tempt at being a publicly traded company. Some of those costs are going to go away. We believe there are other opportunities, but at this point, we are not quantifying them.

L. Zeltser

Are some of the assumptions already baked into your accretion number, or is that basically not in the formula at this point?

V. Khilnani

Some very conservative assumptions have been baked into our accretion assumptions. The other thing I would highlight is that included in the accretion for the first year we have also baked in certain assumptions for integration costs, which only will be there in the first year but will not be there beyond that, so those have also been baked into our numbers.

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L. Zeltser Presumably, it sounds like some of the cost synergy assumptions are pretty conservative and there could be upside to that accretion number.

V. Khilnani Beyond the first year there may be upside.

L. Zeltser Thanks very much.

Moderator Our next question comes from the line of Steven Dayan. Please go ahead with your question.

S. Dayan I have a couple of questions concerning the transaction. The value of the deal is \$14.30, 75% in cash and 25% in stock. Is that correct as I understand it?

V. Khilnani That is correct, and you know that we have talked about a collar around it, too.

S. Dayan Can you explain in detail the collar and how it works? Is it starting with today's pricing, tomorrow's pricing? How does that work, and exactly what are the collar points on the CTS stock?

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V. Khilnani That is a good question. The final price will be determined by starting from a base of \$14.30, as we talked about, and then adjusting it within a collar of \$14.20 on one end and \$15 on the other. This adjustment is calculated by taking 25% of change in the average CTS stock price in the next 20 days from the average of the last 20 days. The last 20 days average we already know is \$13.43. For example, if in the next 20 days the volume rated average price of CTS stock is up \$1 to say \$14.43 then 25% of that \$1 change, or \$0.25, will get added to the \$14.30 base to arrive at the final price of \$14.55.

S. Dayan When does that day start, tomorrow or today?

D. Schwanz Today. One clarification is 20 trading days.

S. Dayan Then does it become a fixed ratio at that point?

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V. Khilnani At that time, the value gets determined and then we would go 20 days prior to the closing and we will take the average price of CTS stock at that point, which will then determine the ratio.

S. Dayan Is there also going to be an election and a proration?

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V. Khilnani Say some more. What do you mean by that?

S. Dayan If someone wants to elect all stock or someone wants to elect all cash, is that a possibility?

V. Khilnani No. It is predetermined at 75% cash and 25% in CTS stocks.

S. Dayan Can you give a little bit better timeline on when you expect to close the deal?

V. Khilnani We are estimating that to take place sometime in the February timeframe next year.

S. Dayan What special approvals are required?

V. Khilnani S-4. I don't believe there is any Hart-Scott requirement, and shareholder approval from SMTEK shareholders.

S. Dayan Thank you very much.

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Moderator Our next question comes from the line of Kevin Kessell. Please go ahead with your question.

K. Kessell On SMTEK's medical side, is it Class Two certified or Class Three, or both?

D. Schwanz I think it is Class Three.

K. Kessell It is up to Class Three in ...?

D. Schwanz Yes. I'm sorry. I misspoke. It is Class Two.

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K. Kessell In terms of the biggest medical customer, it seemed like a year ago that was Phillips at close to 17% of sales and then in the most recent fiscal year it was below 10%. How is the relationship with Phillips medical? Is it still strong because we were under the impression that they were consolidating their EMS supplier down dramatically?

D. Schwanz No, it is still strong. We are still doing the same lines of business that we were before.

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K. Kessell Is that in MRI? What products are you involved in?

V. Khilnani Portable defibrulators.

K. Kessell You guys had mentioned, Don, I think earlier that you're going to be going to the major customers now and explaining to them the integration process. Had you gone to any of the major customers ahead of this deal being announced to get a feel for reaction?

D. Schwanz No.

K. Kessell What was the capacity utilization in the most recent period?

D. Schwanz Domestically I would say it was approximately 40% to 50% maximum. Overseas, it was probably 90%. In fact, today or tomorrow we are having our opening ceremony on the expansion of our building in Thailand that will double its size and certainly increase our capacity there.

K. Kessell How large is Thailand? It seems like it was only 11% or so of revenue.

D. Schwanz In terms of the square footage?

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K. Kessell In terms of square footage and SMT lines?

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D. Schwanz In terms of square footage, it is approximately 44,000 square feet as of today.

K. Kessell That has doubled from 22,000 square feet or so. In terms of SMT lines?

D. Schwanz In terms of SMT lines, by the early January timeframe we'll be up to three lines.

K. Kessell If I heard correctly, it's qualified for medical. Is that its predominant focus, or is it broader?

D. Schwanz It is broader than that. We also do industrial test and controls out there as well as some telecom. In terms of the medical certification, the 1345 out there will not be accomplished for probably another couple of weeks to four weeks.

K. Kessell In terms of the industrial automation customers, I think the largest one appears to be Haas. What are the other customers there because that is the biggest segment for SMTEK?

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D. Schwanz Pentair Pool Products would be considered industrial test and controls. I don't have a list in front of me.

K. Kessell Would Raytheon and those be in the defense aerospace?

D. Schwanz Yes, they would be security and defense. MicroLES would also be industrial test and controls.

K. Kessell The other defense besides Raytheon, I don't know if I heard Don mention any others in the beginning. Was it maybe L-3?

D. Schwanz We do L-3. We lump it together as a security and defense. We do several different product lines for L-3, one of them in the cockpits of surveillance systems, as well as a security system in airport scanners.

K. Kessell On the components side, Don, do you see any cross selling opportunities in terms of selling CTS components into some of SMTEK's existing customers?

D. Schwanz Certainly.

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K. Kessell Is there a particular end market that you think is more attractive, or right now does it look like a broad opportunity? How would you define it?

D. Schwanz I don't think that there is an end market that obviously jumps out at me from that standpoint.

K. Kessell Last question for Vinod, you mentioned purchase prices in terms of cash will be about \$49 million. You don't plan to use a revolver even though you recently increased the revolver, I think, to \$75 million. That would leave you guys with cash on the balance sheet of virtually only a few million dollars. What is the reason for not wanting to use the revolver at this point in time?

V. Khilnani We, frankly, look at the revolver and our cash as intermingled to some extent because we don't keep any cash. As soon as we have cash, we sweep it into the bank accounts. I look at my revolver capacity and cash in hand as really a joint pool of liquid assets for us.

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K. Kessell In terms of keeping cash on the balance sheet, you're saying it's the same way. If you had a zero cash it wouldn't be concerning to you as long as the revolver was fully available for use.

V. Khilnani That is correct.

K. Kessell Thank you very much.

Moderator Our next question comes from the line of John Franzreb. Please go ahead with your question.

J. Franzreb I just want to confirm, you said that capacity utilization was 40% to 50% domestically for SMTEK?

D. Schwanz Yes.

J. Franzreb Looking at the K, it looks like their industrial instrumentation revenue is up nearly 45% from '03 to '04. Could you provide some color on what's driving that?

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D. Schwanz Two-fold, we have landed some new business throughout the year, as well as our established customer base has also increased orders. It really has been a two-fold positive event for us.

J. Franzreb There is nothing particularly large that stands out on that mix?

D. Schwanz No, not that hasn't already been mentioned.

J. Franzreb Thank you.

Moderator Our next question comes from the line of Ron Vannuki. Please go ahead with your question.

R. Vannuki From the standpoint of the SMTEK shareholders, is there going to be a fairness opinion issued in connection with the pricing of this acquisition?

D. Schwanz Yes, there will be, and it was actually. That was part of getting to where we got yesterday.

R. Vannuki Is there a breakup fee built into the definitive agreement?

D. Schwanz Yes, there is. It's 2% of the equity value.

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R. Vannuki One last question, Kirk, are the control shareholders not given any election or proration the same as the rest of the shareholders?

K. Waldron All shareholders are treated equally the same.

R. Vannuki Thank you.

Moderator Our next question comes from the line of John McManus. Please go ahead with your question.

J. McManus Could you tell us what kind of steps you've taken there to lock in key management of SMTEK? Are there contracts involved there in locking this management

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in?

- D. Schwanz We have employment agreements with them going forward, yes.
- J. McManus How long would they run?
- D. Schwanz It varies.

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J. McManus Could you tell us what the capacity utilization is of the CTS offshore plants?

D. Schwanz From the EMS business perspective, I assume that's your question, the operation in Tangen is 40% to 50%. We just finished an expansion over there, which added capacity. We had been at our capacity limit until we just added that. Singapore is 70%, that kind of range. The Scotland facility is more 40% to 50% range.

M Also New Hampshire.

J. McManus Is there any thought there in looking at synergies of closing any plants?

D. Schwanz We have no plans to do that at this point. We looked at the synergies from a geographic standpoint and a different way. We see a lot of opportunities to go capture new customers and to grow the business and believe that the complimentary capabilities will make it very attractive to customers. The idea is to fill them.

J. McManus Could you tell me which bankers were involved on both sides of the transaction?

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V. Khilnani On the CTS side there were no bankers, per se, involved. On the SMTEK side, Duff and Phelps and there was a small investment bank or investment consulting, TW Associates.

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J. McManus Thank you.

Moderator Our next question comes from the line of Amy Yunker. Please go ahead with your question.

A. Yunker Just a couple of quick questions for Kirk. First, looking at the last couple of quarters, the gross margins have been somewhat volatile. Can you just help us understand what has been happening there? Is it more a function of seasonality, or is it inefficiencies resulting from the number of new programs you've won, or something else that is happening? What do you envision as a sustainable long-term goal?

K. Waldron What we have said before in the comments that we have made about our gross margin has been that it is certainly subject more to a product mix to the extent that we have any one customer in a quarter. I wouldn't suggest it is seasonality as much as it is just product mix, but that we certainly

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believe and we have continued to see double-digit gross margins. I think from June to September it went from approximately 13.5% or 14% down to about 12%. I think that on a stand-alone basis we could certainly expect to see some continued variance in that line but nothing dramatic in either direction.

A. Yunker You would think at least 12% going forward would be reasonable, and possibly higher?

K. Waldron I didn't say that.

V. Khilnani I don't think we should make any forward-looking statements.

A. Yunker Can you tell us what the status is for getting the sub-lease for your Poway, California facility? I think that has been vacant for a few months at this point.

K. Waldron We are in the final throes of finishing that off. We've reached an agreement in principle, and quite frankly, if it hadn't been for the distraction the last couple of days, I think I could have brought that to

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fruition. That is something I think we're going to have to turn our attention back to in the next day or two.

A. Yunker When does your lease expire on that facility?

K. Waldron A long time. I don't know, five or six years out.

A. Yunker Thank you.

Moderator Our next question comes from the line of Steve Gerbal. Please go ahead with your question.

S. Gerbal This is Steve Gerbal from Chicago Capital Management. Is there going to be an opportunity for shareholders to elect between the cash and stock, or are you simply going to get 75% cash and 25% of your book?

V. Khilnani I think it's fixed, that 75% cash and 25% CTS stock.

S. Gerbal There will be no election opportunity for shareholders.

V. Khilnani No.

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S. Gerbal Thank you.

Moderator We have a follow up question from the line of Ron Vannuki. Please go ahead with your question.

R. Vannuki When you mentioned the name of the bankers involved, is there any possibility that TW Associates is an affiliate of the controlling shareholder of SMTEK?

K. Waldron No, completely unrelated. It's just a coincidence.

R. Vannuki Thanks, Kirk.

Moderator There are no further questions at this time. Sir, please go ahead.

D. Schwanz We'll end the conference call then. I thank all of those that called in.

Moderator Ladies and gentlemen, this conference will be available for replay today after 5:00 p.m. central time through November 24th. You may access the AT&T

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6701 and entering the access code 757237.
International participants dial 320-365-3844. That
concludes our conference for today. Thank you for
your participation and for using AT&T Executive
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SECURITIES LAW LEGENDS

CTS Corporation intends to file with the Commission a registration statement on Form S-4 that will include a proxy statement and a prospectus and other relevant documents in connection with the proposed transaction. In addition, CTS Corporation will publish and make available to shareholders of SMTEK International, Inc. and file with the Commission, a prospectus. Investors and security holders are urged to carefully read the prospectus regarding the acquisition when it becomes available because it will contain important information on which to exclusively base their investment decision. Investors and security holders of SMTEK International, Inc. are urged to read the proxy statement and prospectuses and other relevant materials when they become available because they will contain important information about CTS Corporation and SMTEK International, Inc. and the proposed transaction. Investors and security holders may obtain a free copy of these materials when they are available and other documents filed with the Commission at its Web site at www.sec.gov. Investors and security holders also may obtain a free copy of these materials when they are available and other documents filed with the Commission by directing a written request to CTS Corporation, 905 West Boulevard North, Elkhart, Indiana 46514, Attention: Corporate Secretary.

CTS Corporation and its respective executive officers and directors may be deemed to be participants in the solicitation of proxies from the SMTEK International, Inc. stockholders with respect to the proposed transaction. Information regarding the interests of these officers and directors in the proposed transaction will be included in the proxy statement and prospectuses.