

CTS CORP  
Form 10-K  
March 03, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Fiscal Year Ended December 31, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission File Number: 1-4639

**CTS CORPORATION**

(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of

incorporation or organization)

905 West Boulevard North, Elkhart, IN

(Address of principal executive offices)

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

35-0225010

(IRS Employer

Identification Number)

46514

(Zip Code)

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

Title of Each Class

Common stock, without par value

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

Name of Each Exchange on Which Registered

New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if smaller reporting company)			

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of CTS Corporation, based upon the closing sales price of CTS common stock on June 28, 2013, was approximately \$460 million. There were 33,715,693 shares of common stock, without par value, outstanding on February 27, 2014.

### **DOCUMENTS INCORPORATED BY REFERENCE**

- (1) Portions of the 2013 Annual Report to Shareholders are incorporated herein by reference in Part II.
- (2) Portions of the Proxy Statement to be filed for the annual meeting of shareholders to be held on or about May 21, 2014 are incorporated by reference in Part III.

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### *Forward-Looking Statements*

This document contains statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, any financial or other guidance, statements that reflect our current expectations concerning future results and events, and any other statements that are not based solely on historical fact. Forward-looking statements are based on management's expectations, certain assumptions and currently available information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on various assumptions as to future events, the occurrence of which necessarily are subject to uncertainties. These forward-looking statements are made subject to certain risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from those presented in the forward-looking statements. Examples of factors that may affect future operating results and financial condition include, but are not limited to: changes in the economy generally and in respect to the business in which CTS operates; unanticipated issues in integrating acquisitions; the results of actions to reposition our business; rapid technological change; general market conditions in the automotive, communications, and computer industries, as well as conditions in the industrial, defense and aerospace, and medical markets; reliance on key customers; unanticipated natural disasters or other events; the ability to protect our intellectual property; pricing pressures and demand for our products; and risks associated with our international operations, including trade and tariff barriers, exchange rates and political and geopolitical risks. Many of these, and other, risks and uncertainties are discussed in further detail in Item 1A. of this Annual Report on Form 10-K. We undertake no obligation to publicly update our forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

## **PART I**

### **Item 1. Business**

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

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

On October 2, 2013, we sold our Electronics Manufacturing Services (EMS) business, which comprised our EMS segment in prior periods, to Benchmark Electronics, Inc. (Benchmark) for approximately \$75 million in cash. Included were five manufacturing facilities located in Moorpark, CA, Londonderry, NH, Bangkok, Thailand, Matamoros, Mexico and San Jose, CA and approximately 1,000 employees. The transaction sharpens CTS' focus on its Components and Sensors business, and provides additional capital to drive growth and enhance shareholder value. As a result of this sale, EMS is reflected as discontinued operations in the accompanying financial statements for the periods presented.

### **PRODUCTS BY MAJOR MARKETS**

Our products perform specific electronic functions for a given product family and are intended for use in customer assemblies. Our major markets consist principally of automotive sensors and actuators used in commercial or consumer vehicles; electronic components used in communications infrastructure and computer markets; components used in computer and other high-speed applications, switches, resistor networks, and potentiometers used to serve multiple markets; and fabricated piezoelectric materials and substrates used primarily in medical, industrial defense and aerospace and computer markets.

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The following table provides a breakdown of net sales by industry as a percent of consolidated net sales from continuing operations:

(As a % of consolidated net sales)	Major Industry		
	2013	2012	2011
<b>Industry</b>			
Automotive	66%	59%	62%
Communications	6%	10%	13%
Computer	6%	6%	2%
Medical	2%	3%	4%
Industrial	13%	13%	12%
Defense and Aerospace	4%	5%	4%
Other	3%	4%	3%
% of consolidated net sales	100%	100%	100%

Net sales by geographic area and long-lived assets by geographic area are contained in Note M, Segments, appearing in the notes to the consolidated financial statements as noted in the Index appearing under Item 15(a)(1) and (2), which is incorporated herein by reference. The former EMS business is reflected in discontinued operations with the sale to Benchmark on October 2, 2013. The former Components and Sensors business comprises the single segment in continuing operations.

The following table identifies major products by industry. Products are sold in several industry OEMs and through distributors.

Product Description	Industry	Transportation	Communications Industry	Computer Industry	Medical Industry	Industrial Industry	Defense and Aerospace Industry	Other Industry
Sensors & Switches								
Mechatronics & Micro-mechatronics								
Frequency Products & Filters								
Electro Ceramics								
Electronic Components & Modules								

**MARKETING AND DISTRIBUTION**

Sales and marketing to OEMs, is accomplished through our sales engineers, independent manufacturers representatives, and distributors. We maintain sales offices in China, Japan, Scotland, Singapore, India, Taiwan, and the United States. Approximately 88% of 2013 net sales from continuing operations were attributable to our sales engineers.

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

We utilize the services of independent manufacturers representatives in the United States and other countries for customers not serviced directly by our sales engineers. Independent manufacturers representatives receive commissions from CTS.



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During 2013, approximately 8% of net sales from continuing operations were attributable to independent manufacturers' representatives. We also use independent distributors. Independent distributors purchase component and sensor products from CTS for resale to customers. In 2013, independent distributors accounted for approximately 4% of net sales from continuing operations.

## **RAW MATERIALS**

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

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

These raw materials are purchased from several vendors, and, except for certain semiconductors, REEs, and conductive inks, we do not believe we are dependent upon one or a limited number of vendors. Although we purchase all of our semiconductors, REEs, and conductive inks from a limited number of vendors, alternative sources are available.

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

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

We maintain a program of obtaining and protecting U.S. and non-U.S. patents relating to products that we have designed and manufactured, as well as processes and equipment used in our manufacturing technology. We were issued 11 new U.S. patents and 22 non-U.S. patents in 2013 and currently hold 174 U.S. patents and 149 non-U.S. patents. We have 11 registered U.S. trademarks, 25 foreign trademarks and two international trademark registrations. We have licensed the right to use several of our patents to both U.S. and non-U.S. companies. In 2013, license and royalty income was less than 1% of net sales.

## **MAJOR CUSTOMERS**

Our 15 largest customers represented 59.8%, 59.5% and 55.5% of sales from continuing operations in 2013, 2012, and 2011, respectively.

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

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

**Table of Contents****ORDER BACKLOG**

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

The following table shows order backlog of January 26, 2014, and January 27, 2013.

(\$ in millions)	January 26, 2014	January 27, 2013
Backlog	\$ 55.8	\$ 49.8

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

**COMPETITION**

We compete with many U.S. and non-U.S. manufacturers principally on the basis of product features, price, technology, quality, reliability, delivery, and service. Most of our product lines encounter significant global competition. The number of significant competitors varies from product line to product line. No one competitor competes with us in every product line, but many competitors are larger and more diversified than us.

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

We believe we compete most successfully in custom products manufactured to meet specific applications of major OEMs.

**NON-U.S. REVENUES**

Net sales from continuing operations to external customers originating from non-U.S. operations were \$186.2 million in 2013 compared to \$181.5 million in 2012, and \$193.3 million in 2011. These represented 45%, 60% and 69% of net sales from continuing operations to external customers originated from non-U.S. operations in 2013, 2012 and 2011, respectively. At December 31, 2013, approximately 43% of total assets were located at non-U.S. operations. At December 31, 2012 and 2011 total assets that were located at non-US operations were 35%, and 37%, respectively. A substantial portion of these assets, other than cash and cash equivalents, cannot readily be liquidated. We believe the business risks to our non-U.S. operations, though substantial, are normal risks for global businesses. These risks include currency controls and changes in currency exchange rates, longer collection cycles, political and transportation risks, economic downturns and inflation, government regulations and expropriation. Our non-U.S. manufacturing facilities are located in Canada, China, Czech Republic, India, Mexico, Scotland, Singapore, and Taiwan.

Additional information about net sales by geographic area and long-lived assets by geographic area, is contained in Note M, Segments, appearing in the notes to the consolidated financial statements as noted in the Index appearing under Item 15(a)(1) and (2), which is incorporated herein by reference.



**Table of Contents****RESEARCH AND DEVELOPMENT ACTIVITIES**

In 2013, we spent \$23.2 million for research and development activities compared to \$20.9 million in 2012 and \$20.0 million in 2011. Ongoing research and development activity is primarily focused on expanded applications and new product development, as well as current product and process enhancements.

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

**EMPLOYEES**

We employed 2,918 people at December 31, 2013, with 74.0% of these employees located outside the United States. Approximately 201 CTS employees at one location in the United States were covered by two collective bargaining agreements as of December 31, 2013. One agreement, which covers 172 employees, is scheduled to expire in 2015 and the other, which covers 29 employees, is scheduled to expire in 2016. We employed 4,264 people at December 31, 2012.

**ADDITIONAL INFORMATION**

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

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

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

**EXECUTIVE OFFICERS OF THE COMPANY**

**Executive Officers.** The following serve as executive officers of CTS as of March 3, 2014. The executive officers are expected to serve until the next annual meeting of the Board of Directors, scheduled to be held on or about May 21, 2014, at which time the election of officers will be considered again by the Board of Directors.

Name	Age	Positions and Offices
Kieran M. O Sullivan	51	President and Chief Executive Officer
Ashish Agrawal	43	Vice President and Chief Financial Officer
Robert J. Patton	48	Vice President, General Counsel and Secretary
Anthony Urban	52	Vice President and General Manager

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**Kieran M. O Sullivan** 51 President and Chief Executive Officer joined CTS on January 7, 2013. Prior to this, Mr. O Sullivan served as Executive Vice President of Continental AG's Global Infotainment and Connectivity Business and led the NAFTA Interior Division, having joined Continental AG, a global automotive supplier, in 2006.

**Ashish Agrawal** 43 Vice President and Chief Financial Officer. On November 11, 2013, Mr. Agrawal was elected Vice President and Chief Financial Officer for CTS. Mr. Agrawal joined CTS in June 2011 as Vice President, Treasury and Corporate Development, and was elected as Treasurer on Sept. 1, 2011. Before joining CTS, Mr. Agrawal was with Dometic Corporation, a manufacturer of refrigerators, awnings and air conditioners as Senior Vice President and Chief Financial Officer since 2007.

**Robert J. Patton** 48 Vice President, General Counsel and Secretary. Mr. Patton joined CTS and was elected Vice President, General Counsel and Secretary on December 5, 2013. Prior to this, Mr. Patton served as General Counsel for Commercial Affairs and Assistant Secretary for Continental AG.

**Anthony Urban** 52 Vice President and General Manager. On November 11, 2013, Mr. Urban was appointed Vice President. Mr. Urban joined CTS through its acquisition of D&R Technology, LLC, a manufacturer of custom design sensors, switches and electromechanical assemblies primarily serving the light-vehicle market, in December 2012, where he was President and co-owner for 14 years.

Information with respect to Directors and Corporate Governance may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

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

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

We depend on a small number of customers for a large portion of our business, and changes in the level of our customers' orders have, in the past, had a significant impact on our results of operations. Our 15 largest customers represent a substantial portion of our sales from continuing operations: approximately 59.8% of net sales in 2013 and 59.5% of net sales in 2012 and 55.5% of net sales in 2011. Our largest customer represented less than 10% of our net sales from continuing operations in 2013, 2012 and 2011. If a major customer significantly cancels, delays or reduces the amount of business it does with us, there could be an adverse effect on our business, financial condition and operating results. Such an adverse effect would likely be material if one of our largest customers significantly reduces its amount of business. Significant pricing and margin pressures exerted by a key customer could also materially adversely affect our operating results. In addition, we generate significant accounts receivable from sales to our major customers. If one or more of our largest customers were to become insolvent or otherwise unable to pay or were to delay payment for services, our business, financial condition and operating results could be materially adversely affected.

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

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

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

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

### **We may be unable to compete effectively against competitors.**

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

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

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

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

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

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

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

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

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

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

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

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

Despite our quality control and quality assurance efforts, defects may occur in the products we manufacture due to design or manufacturing errors or component failure. Product defects may result in delayed shipments and reduced demand for our products. We may be subject to increased costs due to warranty claims on defective products. Product defects may result in product liability claims against us where defects cause, or are alleged to cause, property damage, bodily injury or death. As

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we more deeply penetrate the automotive and medical device manufacturing markets, the risk of exposure to product liability litigation increases. We may be required to participate in a recall involving products which are, or are alleged to be, defective. We carry insurance for certain legal matters involving product liability; however, we do not have coverage for all costs related to product defects and the costs of such claims, including costs of defense and settlement, may exceed our available coverage. Accordingly, our results of operations, cash flow and financial position could be adversely affected.

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

We manufacture accelerator pedal assemblies for a number of automobile manufacturers, including subsidiaries of Toyota Motor Corporation (Toyota). We have supplied accelerator pedal assemblies to Toyota since the 2005 model year. Sales to Toyota have accounted for approximately 6.3%, 7.5% and 6.2% of our annual revenue from continuing operations for the years ended December 31, 2013, 2012 and 2011, respectively. We manufacture all pedal assemblies to specifications approved by the customer, including Toyota.

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

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

While Toyota has repeatedly acknowledged that CTS designs products to Toyota's specifications and the recall is Toyota's responsibility, and Toyota has agreed to indemnify us in connection with certain third-party claims and actions, we cannot assure you that Toyota will not seek to recover a portion of their recall-related costs from us, and the insurance we carry may not be sufficient to cover all such costs. Accordingly, our results of operations, cash flow and financial position could be adversely affected.

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

We transact business in various foreign countries. We present our consolidated financial statements in U.S. dollars, but a portion of our revenues and expenditures are transacted in other currencies. As a result, we are exposed to fluctuations in foreign currencies. We have currency exposure arising from both sales and purchases denominated in currencies other than the U.S. dollar. Volatility in the exchange rates between the foreign currencies and the U.S. dollar could harm our business, financial condition and operating results. Furthermore, to the extent we sell our products in foreign markets, currency fluctuations may result in our products becoming too expensive for foreign customers.

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

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

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

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

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

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

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

In 2013, we initiated a restructuring plan to realign and consolidate certain operations for the purpose of improving our cost structure. The implementation of this plan will result in the elimination of approximately 350 positions within our global operations. The implementation is expected to be completed by the end of 2014.

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

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

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

### **We may explore acquisitions that complement or expand our business as well as divestitures of various business operations. We may not be able to complete these transactions, and these transactions, if executed,**

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**may pose significant risks and may materially adversely affect our business, financial condition and operating results.**

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

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

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

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

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

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

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

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

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

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

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

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

In addition, because we are a generator of hazardous wastes, even if we fully comply with applicable environmental laws and requirements, we may be subject to financial exposure for costs, including costs of investigation and any remediation, associated with contaminated sites at which hazardous substances from our operations have been stored, treated or disposed of. We may also be subject to exposure for such costs at sites that we currently own or operate or formerly owned or operated. Such exposure may be joint and several, so that we may be held responsible for more than our share of the contamination or even for the entire contamination.

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

Future events, such as the discovery of additional contamination or other information concerning past releases of hazardous substances at our manufacturing sites (or at sites we have sent wastes for disposal), changes in existing environmental laws or their interpretation, and more rigorous efforts by regulatory authorities, may require additional expenditures by us to



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modify operations, install pollution control equipment, clean contaminated sites or curtail our operations. These expenditures could have a negative impact on our operations.

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

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

As of December 31, 2013, our debt balance was \$75.0 million, consisting of borrowings under our revolving credit facility. The level of our indebtedness could, among other things: increase our vulnerability to general economic and industry conditions, including recessions; require us to use cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures, research and development efforts and other expenses; limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; place us at a competitive disadvantage compared to competitors that have less indebtedness; or limit our ability to borrow additional funds that may be needed to operate and expand our business. Moreover, an increase in interest rates could increase our interest expense.

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

Our revolving credit facility requires us to deliver quarterly financial statements, annual financial statements, auditors certifications and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, the revolving credit facility contains restrictions limiting our ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with our subsidiaries and affiliates; and the amounts allowed for stock repurchases and dividend payments.

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of February 27, 2014, we had manufacturing facilities, administrative, research and development and sales offices in the following locations:

<b>Manufacturing Facilities</b>	<b>Square Footage</b>	<b>Owned/Leased</b>
Albuquerque, New Mexico	91,000	Leased
Carol Stream, Illinois	50,700	Owned
Elkhart, Indiana	319,000	Owned
Haryana, India	8,000	Leased
Hopkinton, Massachusetts	32,000	Owned
Juarez, Mexico	44,000	Leased
Kaohsiung, Taiwan	133,000	Owned <sup>(1)</sup>
Matamoros, Mexico	51,000	Owned
Nogales, Mexico	67,000	Leased
Ostrava, Czech Republic	67,600	Leased
Singapore	57,600	Leased
Streetsville, Ontario, Canada	112,000	Owned
Tianjin, China	225,000	Owned <sup>(2)</sup>
Zhongshan, China	72,400	Leased
Total manufacturing	1,330,300	

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Non-Manufacturing		Square	
Facilities	Footage	Owned/Leased	Description
Farmington Hills, Michigan	1,800	Leased	Sales office
Brownsville, Texas		Owned	Land Only
Brugg, Switzerland	3,000	Leased	Administrative offices and
			research
Burbank, California	2,900	Leased	Sublet to tenant
El Paso, Texas	22,400	Leased	Office and Warehouse
Elkhart, Indiana	93,000	Owned	Administrative offices and
			research
Glasgow, Scotland	75,000	Owned	Administrative offices and
			research
Glasgow, Scotland	37,000	Leased	Idle Facility
Juarez, Mexico	70,200	Leased	Idle Facility
Lisle, Illinois	37,200	Leased	Administrative offices and
			research
Nagoya, Japan	800	Leased	Sales office
Sandwich, Illinois		Owned	Land only
Tucson, Arizona	1,900	Leased	Administrative offices
Tucson, Arizona	48,000	Owned	Idle Facility
Yokohama, Japan	1,400	Leased	Sales office
Total non-manufacturing	394,600		

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

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

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

**Item 3. Legal Proceedings**

We manufacture accelerator pedals for a number of automobile manufacturers, including subsidiaries of Toyota. In January 2010, Toyota initiated a recall of a substantial number of vehicles in North America containing pedals manufactured by CTS. The pedal recall and associated events have led to us being named as a co-defendant with Toyota in certain litigation.

In February 2010, we entered into an agreement with Toyota whereby Toyota agreed that it will indemnify, defend, and hold us harmless from, and the parties will cooperate in the defense of, certain third-party civil claims and actions that are filed or asserted in the United States or Canada and that arise from or relate to alleged incidents of unintended acceleration of Toyota and Lexus vehicles. If it is determined that CTS acted negligently in selecting materials or processes where we had sole control over the selection process, in failing to meet Toyota's specifications, or in making unapproved changes in component design or materials, and such negligence caused or contributed to a claim, we will be responsible for any judgment that may be rendered against us individually, or any portion of a judgment that may be allocated to us, but limited only to the extent of insurance collected from our insurers. Toyota would remain responsible to defend CTS in these actions and would

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remain responsible for any balance of the remaining liability over amounts recovered by insurance. The agreement does not, however, cover costs or liabilities in connection with government investigations, government hearings, or government recalls.

Presently, we have been served process and named as a co-defendant with Toyota in forty-two open lawsuits; we have been dismissed as a defendant from an additional thirty-one lawsuits. The claims generally fall into two categories, those that

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allege sudden unintended acceleration of Toyota vehicles led to injury or death, and those that allege economic harm to owners of Toyota vehicles related to vehicle defects. Some suits combine elements of both. Claims include demands for compensatory and special damages. To date, the only actions filed where we are aware we have been named as a co-defendant are civil actions filed in the United States or Canada. All currently open lawsuits are subject to the indemnification agreement described above. Some of these lawsuits arise out of incidents involving models for which we do not manufacture the pedal, such as all Lexus models, the Toyota Prius, and the Toyota Tacoma, or for which we manufacture only a portion of the pedals, such as the Toyota Camry. Many of these lawsuits have been consolidated in federal multidistrict litigation in the United States District Court, Southern District of California, though some remain in various other courts.

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

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

**Not applicable.**

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Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

CTS common stock is listed on the New York Stock Exchange under the symbol CTS. On February 27, 2014, there were approximately 1,329 common shareholders of record.

CTS increased its quarterly dividend to \$0.04 per share, or an annual rate of \$0.16 per share, in the fourth quarter of 2013. The quarterly dividend was previously \$0.35 per share or an annual rate of \$0.14. The declaration of a dividend and the amount of any such dividend is subject to earnings, anticipated working capital, capital expenditures, other investment requirements, the financial condition of CTS, and any other factors considered relevant by the Board of Directors.

**Per Share Data**

(Unaudited)

	High <sup>(1)</sup>	Low <sup>(1)</sup>	Dividends Declared	Net Earnings Continuing Operations		Net Earnings Discontinued Operations		Net Earnings Total	
				Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>2013</b>									
4 <sup>th</sup> quarter	\$ 20.10	\$ 15.36	\$ 0.040	\$ 0.12	\$ 0.12	\$ (0.21)	\$ (0.21)	\$ (0.09)	\$ (0.09)
3 <sup>rd</sup> quarter	15.74	13.55	0.035	0.16	0.16	0.04	0.05	0.20	0.21
2 <sup>nd</sup> quarter	14.22	9.46	0.035	(0.31)	(0.31)	(0.03)	(0.03)	(0.34)	(0.34)
1 <sup>st</sup> quarter	11.30	9.33	0.035	0.09	0.09	0.02	0.01	0.11	0.10
<b>2012</b>									
4 <sup>th</sup> quarter	\$ 10.66	\$ 7.06	\$ 0.035	\$ 0.17	\$ 0.17	\$ 0.09	\$ 0.08	\$ 0.26	\$ 0.25
3 <sup>rd</sup> quarter	10.64	8.38	0.035	0.10	0.10	0.07	0.07	0.17	0.17
2 <sup>nd</sup> quarter	11.22	8.81	0.035	0.07	0.06	0.03	0.04	0.10	0.10
1 <sup>st</sup> quarter	11.03	9.17	0.035	0.06	0.06	0.01	0.01	0.07	0.07

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

As shown in the following table, there were CTS common stock repurchases made by the Company during the three months ended December 31, 2013:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as part of Plans or Program	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1 &amp; 2)</sup>
Balance at September 29, 2013				1,268,336
September 30, 2013 – October 27, 2013	10,000	\$ 17.90	10,000	1,258,336
October 28, 2013 – November 24, 2013	133,813	\$ 18.46	133,813	1,124,523
November 25, 2013 – December 31, 2013	75,408	\$ 17.70	75,408	1,049,115

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- (1) In August 2012, CTS Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market. The authorization has no expiration.*
- (2) In June 2013, CTS Board of Directors authorized another program to repurchase up to one million shares of its common stock in the open market. The authorization has no expiration.*

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**Table of Contents****Item 6. Selected Financial Data****Five-Year Summary**

(In thousands except per share data)

		% of		% of		% of		% of		% of
	2013	Sales	2012	Sales	2011	Sales	2010	Sales	2009	Sales
<b>Summary of Operations</b>										
Net sales from continuing operations	\$ 409,461	100.0	\$ 304,481	100.0	\$ 279,857	100.0	\$ 282,860	100.0	\$ 213,184	100.0
Cost of goods sold	288,108	70.4	212,965	70.0	190,634	68.1	185,605	65.6	145,560	68.3
Insurance recovery for business interruption		0.0	(637)	(0.2)		0.0		0.0		0.0
Selling, general and administrative expenses <sup>(1)</sup>	64,987	15.9	60,953	20.0	52,446	18.7	53,068	18.8	48,562	22.8
Research and development expenses	23,222	5.7	20,918	6.9	19,990	7.2	18,313	6.5	14,154	6.6
Amortization of intangible assets	5,002	1.2	2,118	0.7	1,690	0.6	1,563	0.5	2,022	0.9
Restructuring and goodwill impairment charges	10,455	2.5	3,437	1.1	2,389	0.9	1,010	0.4	4,469	2.1
Gain on sale-leaseback		0.0	(10,334)	(3.4)		0.0		0.0		0.0
Operating earnings/(loss) from continuing operations	17,687	4.3	15,061	4.9	12,708	4.5	23,301	8.2	(1,583)	(0.7)
Other income/(expense) net	376	0.1	(617)	(0.2)	(392)	(0.1)	(1,410)	(0.5)	(2,593)	(1.2)
Earnings/(loss) before income taxes from continuing operations	18,063	4.4	14,444	4.7	12,316	4.4	21,891	7.7	(4,176)	(1.9)
Income tax expense/(benefit) from continuing operations	16,066	3.9	952	0.3	1,053	0.4	4,207	1.5	10,851	(5.1)
Earnings/(loss) from continuing operations	1,997	0.5	13,492	4.4	11,263	4.0	17,684	6.2	(15,027)	(7.0)
(Loss)/earnings from discontinued operations, net of tax	(778)		6,841		9,704		4,354		(19,023)	
Loss on sale of EMS operations, net of tax	(5,148)									
(Loss)/earnings from discontinued operations	(5,926)		6,841		9,704		4,354		(19,023)	
Net (loss)/earnings	\$ (3,929)		\$ 20,333		\$ 20,967		\$ 22,038		\$ (34,050)	
Retained earnings beginning of Year	367,800		352,205		335,524		317,582		355,694	
Dividends declared	(4,874)		(4,738)		(4,286)		(4,096)		(4,062)	
Retained earnings end of year	\$ 358,997		\$ 367,800		\$ 352,205		\$ 335,524		\$ 317,582	
<b>Net earnings/(loss) per share:</b>										
<b>Basic:</b>										
Continuing operations	\$ 0.06		\$ 0.40		\$ 0.33		\$ 0.52		\$ (0.44)	
Discontinued operations	(0.18)		0.20		0.28		0.13		(0.57)	
Net (loss)/earnings attributable to CTS Corporation	\$ (0.12)		\$ 0.60		\$ 0.61		\$ 0.65		\$ (1.01)	



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## Diluted:

Continuing operations	\$ 0.06	\$ 0.39	\$ 0.32	\$ 0.51	\$ (0.44)
Discontinued operations	(0.18)	0.20	0.28	0.12	(0.57)

Net (loss)/earnings attributable to CTS Corporation	\$ (0.12)	\$ 0.59	\$ 0.60	\$ 0.63	\$ (1.01)
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Average basic shares outstanding	33,601	33,922	34,321	34,090	33,823
Average diluted shares outstanding	34,249	34,523	35,006	34,849	33,823
Cash dividends per share (annualized)	\$ 0.145	\$ 0.14	\$ 0.125	\$ 0.12	\$ 0.12
Capital expenditures <sup>(2)</sup>	13,982	16,323	20,307	13,271	6,537
Depreciation and amortization	21,169	19,615	17,548	17,565	19,531

## Financial Position at Year End

Current assets	\$ 236,269	\$ 309,558	\$ 283,386	\$ 266,655	\$ 193,735
Current liabilities	95,120	115,040	124,237	120,100	90,516
Current ratio	2.5 to 1	2.7 to 1	2.3 to 1	2.2 to 1	2.1 to 1
Working capital	\$ 141,149	\$ 194,518	\$ 159,149	\$ 146,555	\$ 103,219
Inventories	32,226	81,752	92,540	76,885	54,348
Net property, plant and equipment	74,869	93,725	84,860	78,213	81,120
Total assets	480,265	561,190	480,815	482,584	407,657
Short-term notes payable					
Long-term debt	75,000	153,500	74,400	70,000	50,400
Long-term obligations, including long-term debt	88,416	178,392	93,281	88,234	69,687
Shareholders' equity	296,729	267,758	263,297	274,250	247,454
Common shares outstanding (000s)	33,559	33,433	34,066	34,197	33,893
Equity (book value) per share	\$ 8.84	\$ 8.01	\$ 7.73	\$ 8.02	\$ 7.30
Stock price range	\$ 20.10-9.33	\$ 11.22-7.06	\$ 12.39-7.14	\$ 11.84-6.81	\$ 10.62-2.11

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(1) *Excludes amortization of intangible asset.*

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

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

Information about results of operations, liquidity, and capital resources for the three previous years is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations (2011-2013) included in the 2013 Annual Report to Shareholders and is incorporated herein by reference.

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

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

##### *Interest Rate Risk*

We are exposed to the changes in interest rates on our revolving credit facility. There was \$75.0 million and \$153.5 million outstanding under our revolving credit facility at December 31, 2013 and 2012, respectively. As of December 31, 2013, we had \$75.0 million in interest rate swaps that fix our interest cost. See Note H, Debt, to our consolidated financial statements for components of our long-term debt and interest rate swaps. Based on our long-term debt balance of \$75.0 million at December 31, 2013, a one percentage point increase in interest rates would not increase interest expense since the interest rate swaps match the outstanding debt.

##### *Foreign Currency Risk*

We are exposed to foreign currency exchange rate risks. Our significant foreign subsidiaries are located in Canada, China, Czech Republic, Mexico, Scotland, Singapore and Taiwan. As of December 31, 2013, we did not have any outstanding foreign currency forward exchange contracts.

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

##### *Commodity Price Risk*

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

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

Consolidated financial statements meeting the requirements of Regulation S-X, and the Report of our Independent Registered Public Accounting Firm, appear in the financial statements and supplementary financial data as noted in the Index appearing under Item 15(a)(1) and (2), and are included in the 2013 Annual Report to Shareholders and incorporated herein by reference.

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

None.

### **Item 9A. Controls and Procedures**

Pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated our disclosure controls and procedures as of the end of the period covered by this annual report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

The report from Grant Thornton LLP on its audit of the effectiveness of CTS' internal control over financial reporting as of December 31, 2013, is included on page 14 of Exhibit 13 of this Annual Report on Form 10-K under the heading Report of Independent Registered Public Accounting Firm and is incorporated herein by reference. The Report of Management on Internal Control over Financial Reporting, which can be found following the signature page of this Annual Report on Form 10-K, is incorporated herein by reference.

#### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting for the year ended December 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### **Item 9B. Other Information**

None.

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## **PART III**

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

Please see Part I, Item 1 of this Annual Report on Form 10-K for information about our executive officers, which is incorporated by reference herein. Information with respect to Directors and Corporate Governance may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

**Item 11. Executive Compensation**

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information with respect to this item may be found in our definitive proxy statement to be delivered to shareholders in connection with our 2014 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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## PART IV

**Item 15. Exhibits and Financial Statements Schedules**

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

**(a) (3) Exhibits**

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

- (2)(ii) Stock Purchase Agreement, dated October 2, 2013, between CTS Corporation and Benchmark Electronics, Inc. (incorporated by reference to Exhibit 2 (a) to the Quarterly Report on Form 10-Q for the quarter ended September 29, 2013, filed with the SEC on October 29, 2013. \*\*
- (3)(i) Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 5 to the Current Report on Form 8-K, filed with the SEC on September 1, 1998).
- (3)(ii) Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3 to the Current Report on Form 8-K, filed with the SEC on February 8, 2010).
- (10)(a) Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on November 12, 2008).
- (10)(b) CTS Corporation Stock Retirement Plan for Non-Employee Directors, effective April 30, 1990, as amended (incorporated by reference to Exhibit (10)(a) to the Quarterly Report on Form 10-Q for the quarter ended March 30, 2003, filed with the SEC on April 23, 2003).\*
- (10)(c) Amendment to the CTS Corporation Stock Retirement Plan for Non-Employee Directors, dated as of December 1, 2004 (incorporated by reference to Exhibit (10)(j) to the Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 4, 2005).
- (10)(d) CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit (10)(t) to the Annual Report on Form 10-K for the year ended December 31, 2002, filed with the SEC on February 14, 2003).\*
- (10)(e) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the quarter ended June 29, 2003, filed with the SEC on July 25, 2003).\*
- (10)(f) CTS Corporation 2004 Omnibus Long-term Incentive Plan and Incentive Stock Option Agreement (incorporated by reference to the Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, filed with the SEC on October 19, 2004).\*
- (10)(g) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(p) to the Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on February 27, 2006).\*
- (10)(h) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 2, 2006, filed with the SEC on April 26, 2006).\*
- (10)(i) Credit Agreement, dated as of November 18, 2010, by and among CTS Corporation, the Lenders named therein and Harris N.A. as L/C Issuer, and Administrative Agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K, filed with the SEC on November 22, 2010).
- (10)(j) First amendment to Credit Agreements dated as of January 10, 2012, by and among CTS Corporation, the lenders name therein and Harris N.A. as L/C issuer and administrative agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K filed with the SEC on January 11, 2012).



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- (10)(k) Amendment No. 1 to the CTS Corporation 2004 Omnibus Long-term Incentive Plan (incorporated by reference to Exhibit 10(aa) to the Annual Report on Form 10-K filed with the SEC on May 15, 2007).\*
- (10)(l) CTS Corporation Management Incentive Plan, approved by the shareholders on June 28, 2007 (incorporated by reference to Appendix A to the Proxy Statement for the 2007 Annual Meeting of Shareholders, filed with the SEC on May 24, 2007).\*
- (10)(m) Performance Share Agreement between CTS Corporation and Vinod M. Khilnani, dated August 1, 2007 (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).\*
- (10)(n) Prototype Individual Excess Benefit Retirement Plan (incorporated by reference to Exhibit 10(d) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).\*
- (10)(o) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(bb) to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 23, 2009).\*
- (10)(p) 2009-2010 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended March 29, 2009, filed with the SEC on April 29, 2009).\*
- (10)(q) CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(r) 2010 - 2011 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 4, 2010, filed with the SEC on April 28, 2010).\*
- (10)(s) Form Restricted Stock Unit Agreement (Shares) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(t) Form Restricted Stock Unit Agreement (Cash) (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).\*
- (10)(u) CTS Corporation Executive Severance Policy, effective as of September 10, 2009 (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarter ended September 27, 2009, filed with the SEC on October 28, 2009).\*
- (10)(v) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees Pension Plan) (incorporated by reference to Exhibit 10(w) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 24, 2011).\*
- (10)(w) Letter Agreement dated February 19, 2010 by and among CTS Corporation, Toyota Motor Sales, U.S.A. Inc., Toyota Canada Inc. and Toyota Motor Engineering & Manufacturing North America, Inc. (incorporated by reference to Exhibit 10(a) to the Quarterly Report on form 10-Q for the quarter ended October 3, 2010, filed with the SEC October 27, 2010).
- (10)(x) Prototype Change in Control Agreement (incorporated by reference to Exhibit 10(x) to the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 23, 2012).\*
- (10)(y) 2011- 2012 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 3, 2011, filed with the SEC on April 27, 2011). \*
- (10)(z) Agreement, dated as of March 27, 2012, by and between CTS Corporation and Vinod M. Khilnani (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on March 30, 2012).\*
- (10)(aa) CTS Corporation Management Incentive Plan, approved by the shareholders on May 23, 2012 (incorporated by reference to Appendix A to the Proxy Statement for the 2012 Annual Meeting of Shareholders, filed with the SEC on April 17, 2012).\*

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(10)(bb)	2012-2013 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(bb) to the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 25, 2013). *
(10)(cc)	CTS Corporation 2013 2015 CEO Performance Restricted Stock Unit Plan, dated February 8, 2013 (incorporated by reference to Exhibit 10(cc) to the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 25, 2013). *
(10)(dd)	CTS Corporation 2013 2015 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on April 25, 2013).*
(10)(ee)	First Amendment to the CTS Corporation Executive Severance Policy (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on April 25, 2013).*
(13)	Portions of the 2013 Annual Report to shareholders incorporated herein.
(21)	Subsidiaries.
(23)	Consent of Grant Thornton LLP.
(31)(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31)(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

\*\* *Pursuant to Item 601(b) (2) of Regulation S-K, certain exhibits and schedules have been omitted and CTS agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibits upon request.*



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CTS Corporation**

Date: March 3, 2014

By: */s/ Ashish Agrawal*  
Ashish Agrawal

Vice President and Chief Financial Officer

(Principal Accounting Officer)

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

Date: March 3, 2014

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

Director, President, and Chief Executive Officer

(Principal Executive Officer)

Date: March 3, 2014

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

Lead Director

Date: March 3, 2014

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

Director

Date: March 3, 2014

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

Director

Date: March 3, 2014

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

Director

Date: March 3, 2014

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

Director

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Date: March 3, 2014

By: */s/Gordon Hunter*  
Gordon Hunter

Director

Date: March 3, 2014

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

Director

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Date: March 3, 2014

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

Director

Date: March 3, 2014

By: */s/Ashish Agrawal*  
Ashish Agrawal

Vice President and Chief Financial Officer

(Principal Accounting Officer)

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

**CTS CORPORATION AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS**

**AND FINANCIAL STATEMENT SCHEDULE**

The following consolidated financial statements of CTS Corporation and subsidiaries included in the 2013 Annual Report are referenced in Part II, Item 8, filed herewith as Exhibit (13) and incorporated herein by reference:

Consolidated Statements of Operations    Years ended December 31, 2013, December 31, 2012 and December 31, 2011

Consolidated Statements of Comprehensive Earnings/(Loss)    Years ended December 31, 2013, December 31, 2012 and December 31, 2011

Consolidated Balance Sheets    December 31, 2013 and December 31, 2012

Consolidated Statements of Cash Flows    Years ended December 31, 2013, December 31, 2012 and December 31, 2011

Consolidated Statements of Shareholders' Equity    Years ended December 31, 2013, December 31, 2012 and December 31, 2011

Notes to consolidated financial statements

Schedule II    Valuation and Qualifying Accounts

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

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

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

In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2013, management determined that its internal control over financial reporting were effective as of December 31, 2013. Grant Thornton LLP, an independent registered public accounting firm, has audited CTS internal control over financial reporting as of December 31, 2013, as stated in their report which is included herein.

CTS Corporation

Elkhart, Indiana

March 3, 2014

/s/ Kieran M. O Sullivan

Kieran M. O Sullivan

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Ashish Agrawal

Ashish Agrawal

Vice President and Chief Financial Officer

(Principal Accounting Officer)

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