

CTS CORP
Form 10-Q
July 31, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 1, 2007

OR

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

For the Transition Period from _____ to _____

Commission File Number: 1-4639

CTS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Edgar Filing: CTS CORP - Form 10-Q

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 26, 2007:
35,582,031.

CTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	3
<u>Financial Statements</u>	
<u>Unaudited Condensed Consolidated Statements of Earnings</u>	3
- For the Three and Six Months ended July 1, 2007 and July 2, 2006	
<u>Unaudited Condensed Consolidated Balance Sheets</u>	4
- As of July 1, 2007 and December 31, 2006	
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	5
- For the Six Months Ended July 1, 2007 and July 2, 2006	
<u>Unaudited Condensed Consolidated Statements of Comprehensive Earnings</u>	6
- For the Three and Six Months Ended July 1, 2007 and July 2, 2006	
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2.	18
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	28
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
Item 4.	28
<u>Controls and Procedures</u>	
<u>PART II. OTHER INFORMATION</u>	30
Item 1.	30
<u>Legal Proceedings</u>	
Item 1A.	30
<u>Risk Factors</u>	
Item 2.	30
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 4.	31
<u>Submission of Matters to a Vote of Security Holders</u>	
Item 6.	31
<u>Exhibits</u>	
<u>SIGNATURES</u>	32

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net sales	\$ 169,624	\$ 165,925	\$ 332,882	\$ 316,418
Costs and expenses:				
Cost of goods sold	136,680	134,157	269,600	254,609
Selling, general and administrative expenses	20,940	19,222	42,210	35,612
Research and development expenses	4,102	4,070	8,222	8,162
Restructuring charge	—	920	—	2,882
Operating earnings	7,902	7,556	12,850	15,153
Other (expense) income:				
Interest expense	(681)	(1,034)	(1,372)	(2,145)
Interest income	486	198	965	323
Other	(232)	59	154	62
Total other expense	(427)	(777)	(253)	(1,760)
Earnings before income taxes	7,475	6,779	12,597	13,393
Income tax expense - Note I	1,570	1,520	2,646	3,094
Net earnings	\$ 5,905	\$ 5,259	\$ 9,951	\$ 10,299
Net earnings per share - Note H				
Basic	\$ 0.16	\$ 0.15	\$ 0.28	\$ 0.29
Diluted	\$ 0.15	\$ 0.14	\$ 0.26	\$ 0.27
Cash dividends declared per share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06
Average common shares outstanding:				
Basic	35,824	35,843	35,824	35,832
Diluted	40,302	40,145	40,355	40,189

See notes to unaudited condensed consolidated financial statements.

Table of Contents

CTS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	July 1, 2007	December 31, 2006*
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 37,161	\$ 38,630
Accounts receivable, less allowances (2007 - \$1,683; 2006 - \$2,139)	104,990	106,012
Inventories, net - Note C	74,018	60,543
Other current assets	22,947	22,435
Total current assets	239,116	227,620
Property, plant and equipment, less accumulated depreciation (2007 - \$269,114 ; 2006 - \$259,548)	92,926	96,468
Other Assets		
Prepaid pension asset - Note E	105,132	100,666
Goodwill	24,657	24,657
Other intangible assets, net	37,593	39,154
Deferred income taxes	32,955	37,401
Other	1,740	1,867
Total other assets	202,077	203,745
Total Assets	\$ 534,119	\$ 527,833
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable – Note D	\$ 1,506	\$ 5,425
Current portion of long-term debt - Note D	—	186
Accounts payable	81,611	78,205
Accrued liabilities	43,052	41,865
Total current liabilities	126,169	125,681
Long-term debt - Note D	60,000	60,635
Other long-term obligations	22,410	22,494
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock - authorized 75,000,000 shares without par value; 53,862,444 shares issued at July 1, 2007 and 53,718,801 shares issued at December 31, 2006	278,214	276,553
Additional contributed capital	27,504	27,899
Retained earnings	323,177	315,370
Accumulated other comprehensive loss	(29,463)	(31,283)
	599,432	588,539
Cost of common stock held in treasury (2007 – 18,247,708 shares and 2006 -17,895,708)	(273,892)	(269,516)
Total shareholders' equity	325,540	319,023
Total Liabilities and Shareholders' Equity	\$ 534,119	\$ 527,833

** The balance sheet at December 31, 2006, has been derived from the audited financial statements at that date.*

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

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

	Six Months Ended	
	July 1, 2007	July 2, 2006
Cash flows from operating activities:		
Net earnings	\$ 9,951	\$ 10,299
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,552	13,218
Prepaid pension asset	(4,466)	(3,131)
Amortization of retirement benefit adjustments	2,128	—
Equity-based compensation – Note B	1,636	2,065
Restructuring charge	—	2,882
Deferred income taxes	(195)	—
Changes in assets and liabilities		
Accounts receivable	1,021	(12,921)
Inventories	(13,476)	(2,366)
Other current assets	(331)	(1,690)
Accounts payable and accrued liabilities	8,256	8,797
Other	(611)	274
Total adjustments	5,514	7,128
Net cash provided by operating activities	15,465	17,427
Cash flows from investing activities:		
Capital expenditures	(6,271)	(5,848)
Proceeds from sales of assets	45	1,227
Net cash used in investing activities	(6,226)	(4,621)
Cash flows from financing activities:		
Payments of long-term debt	(857)	(61,268)
Proceeds from borrowings of long-term debt	—	57,190
Payments of short-term notes payable	(5,026)	(2,031)
Proceeds from borrowings of short-term notes payable	1,107	827
Dividends paid	(2,145)	(2,152)
Purchase of treasury stock	(4,343)	(768)
Other	198	(130)
Net cash used in financing activities	(11,066)	(8,332)
Effect of exchange rate on cash and cash equivalents	358	1,148
Net (decrease) increase in cash and cash equivalents	(1,469)	5,622
Cash and cash equivalents at beginning of year	38,630	12,029
Cash and cash equivalents at end of period	\$ 37,161	\$ 17,651
Supplemental cash flow information		
Cash paid during the period for:		
Interest	\$ 1,106	\$ 1,847
Income taxes – net	\$ 1,146	\$ 2,729

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net earnings	\$ 5,905	\$ 5,259	\$ 9,951	\$ 10,299
Other comprehensive earnings:				
Cumulative translation adjustment	549	1,448	550	1,983
Amortization of retirement benefit adjustments (net of tax)	610	—	1,270	—
Comprehensive earnings	\$ 7,064	\$ 6,707	\$ 11,771	\$ 12,282

See notes to unaudited condensed consolidated financial statements.

Table of Contents

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 1, 2007

NOTE A - Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation (CTS or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated interim financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying unaudited condensed consolidated interim financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Actual results could differ materially from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

Certain reclassifications have been made for the periods presented in the unaudited condensed consolidated financial statements to conform to the classifications adopted in 2007.

NOTE B - Equity-Based Compensation

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

At July 1, 2007, CTS had five equity-based compensation plans: the 1988 Restricted Stock and Cash Bonus Plan (1988 Plan), the 1996 Stock Option Plan (1996 Plan), the 2001 Stock Option Plan (2001 Plan), the Nonemployee Directors' Stock Retirement Plan (Directors' Plan), and the 2004 Omnibus Long-Term Incentive Plan (2004 Plan). As of December 2004, additional grants can only be made under the 2004 Plan. CTS believes that equity-based awards align the interest of employees with those of its shareholders.

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

The following table summarizes the compensation expense included in the Unaudited Condensed Consolidated Statement of Earnings for the three and six-month periods ending July 1, 2007 and July 2, 2006 relating to equity-based compensation plans:

(\$ in thousands)	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Stock options ⁽¹⁾	\$ 58	\$ 548	\$ 236	\$ 771
Restricted stock units	441	595	1,316	1,176
Restricted stock	43	57	84	118
Total	\$ 542	\$ 1,200	\$ 1,636	\$ 2,065

⁽¹⁾ Stock option expense includes \$3 and \$11 in the quarters ending July 1, 2007 and July 2, 2006, respectively, and \$8 and \$25 for the six-month periods ending July 1, 2007 and July 2, 2006, respectively, related to non-employee director stock options.

Table of Contents

The following table summarizes plan status as of July 1, 2007:

	2004 Plan	2001 Plan	1996 Plan
Awards originally available	6,500,000	2,000,000	1,200,000
Stock options outstanding	315,475	859,813	297,800
Restricted stock units outstanding	581,768	—	—
Awards exercisable	162,488	854,213	297,800