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CTS[®]
CORPORATION

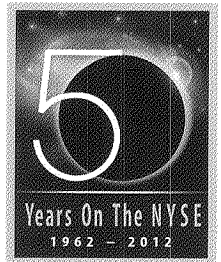


Annual Report **2011**

Driving Growth and Profitability
...Innovative Solutions For a Changing World

Corporate Profile

CTS Corporation (NYSE: CTS) was founded in 1896. CTS is an innovative designer and manufacturer of sensors, actuators, electronic components and a leading provider of value-add electronics manufacturing services (EMS). Our sensors, actuators and electronic components serve OEMs in the automotive, communications, industrial, medical, defense and aerospace and computer markets. Our EMS operations provide specialty solutions to customers throughout the communications, defense and aerospace, industrial and medical markets. We have manufacturing operations located throughout North America, Asia and Europe. For more information please visit us at: www.ctscorp.com



CTS Celebrates its 50th anniversary on the New York Stock Exchange on June 4, 2012. Over the past 50 years, CTS has grown and prospered as a global supplier of highly engineered electronic components. CTS is committed to delivering shareholder value by Driving Growth and Profitability through Innovative Solutions for a Changing World.

Core Values

Integrity

- We insist on integrity in everything we do and value doing the right thing.

Mutual Respect

- We listen to and learn from everyone.
- We treat everyone with dignity and fairness with equal opportunity to succeed for all.

Drive to Succeed

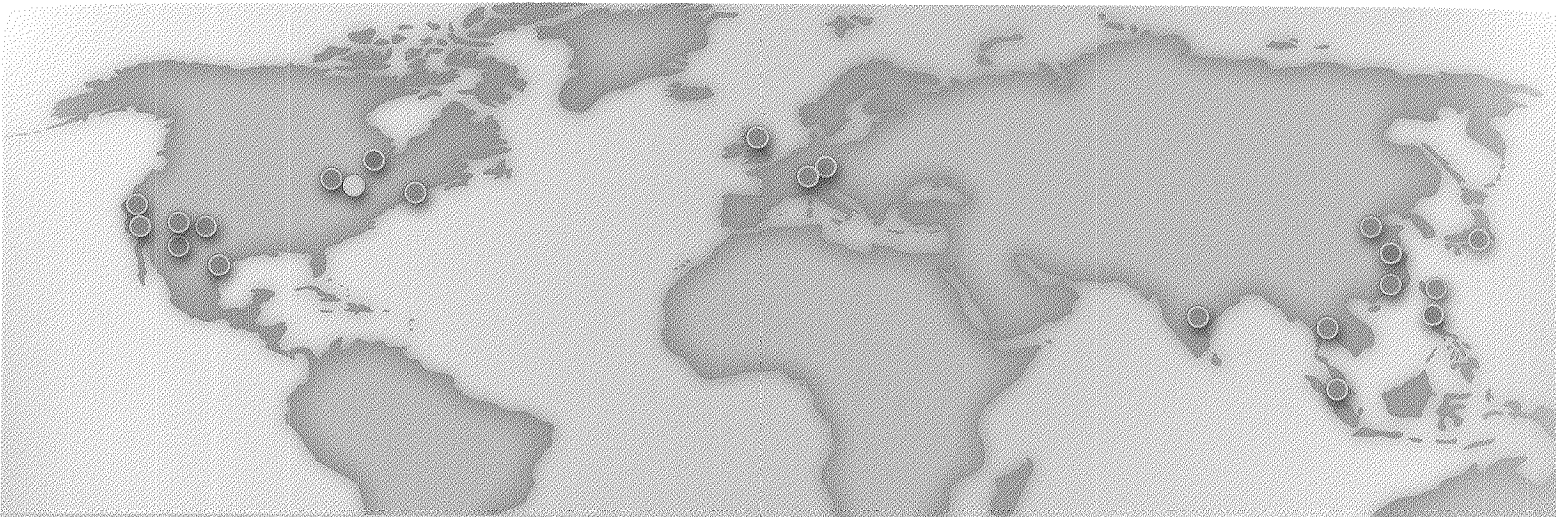
- We strive for excellence, relentlessly pursuing continuous improvement in our products and services, processes and capabilities.

Vision Statement

We are a global, growth oriented sensors and actuators, electronic components, and services company, dedicated to delivering innovative solutions for a better, safer and healthier world.

Our Global Footprint

CTS has established itself as a leader in quality and innovative products across the globe, recently expanding in faster growing, lower-cost markets like India, Thailand and Mexico.



● Headquarters

● Manufacturing

● Sales Office

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Message to Our Fellow Shareholders



Vinod M. Khilnani

Chairman of the Board,
President and
Chief Executive Officer

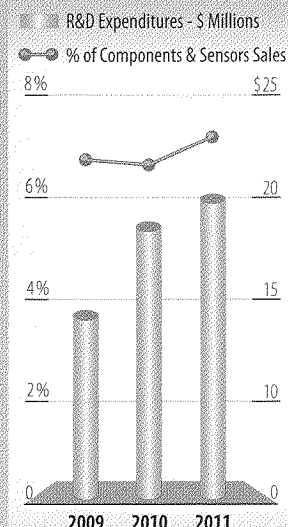
We are pleased to report that CTS recorded higher sales, earnings, and cash flow in 2011 despite a rather challenging year due to Japan's earthquake and tsunami early in the year, followed by major flooding in Thailand in the second half of the year. Many of our key customers were adversely affected by these events and one of our manufacturing sites in Thailand was completely flooded and stopped all production. In spite of these major distractions, the Company made notable strides developing and launching new products for new customers in new markets. As a result, we are positioned to grow at a much faster rate than general economic growth over the next several years. Our commitment to research and development, and success with new business wins underscores our commitment to **Drive Growth and Profitability**, through **Innovative Solutions For a Changing World**.

CTS delivered 2011 full-year sales of \$588.5 million, up 6.5% from 2010, and full-year adjusted earnings per share of \$0.67, up 1.5% from 2010. The natural disasters discussed above impacted 2011 sales by almost \$24 million. Some of the missed sales and related earnings and cash flow impact from the natural disasters are expected to be partially recovered in 2012. Cash provided by operations improved to approximately \$22 million from \$19 million last year.

New Business, New Products and New Customers

2011 was a very exciting and successful year from the perspective of new product launch activities and future growth opportunities. Despite the distraction of natural disasters, we stayed focused on launching new products, such as the piezoceramic components for hard disk drives, smart actuator for diesel power generation and transmission range sensors for all-electric vehicles. Development and testing of other new products, which have positioned us for strong growth over the next several years and are in the final stages of testing, include an actuator for active grill shutter systems to be launched in mid-2012, and a family of smart actuators for commercial diesel engine applications to be launched in late 2012.

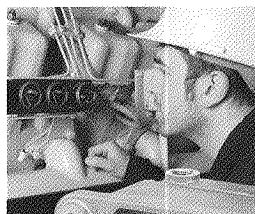
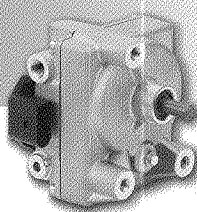
We kept our focus on research and development activities in 2011. As a result, we not only expanded our portfolio of intellectual property with 25 new patent awards, but continued to launch new products for new markets and applications. Total new business awards in 2011 were valued at \$140 million of future revenues, 31% higher than the prior year. About 80% of these new wins were in our strategically focused, higher margin, Components and Sensors segment.



Sensors and Actuators

Double-digit sales growth expected in sensor and actuator products by:

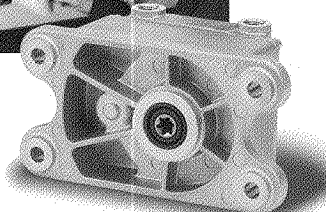
- Gaining market share with existing products and customers
- Organically developing new products to penetrate new customers in new markets
- CTS' highly-engineered products help improve fuel economy and reduce emissions



New Smart Actuator

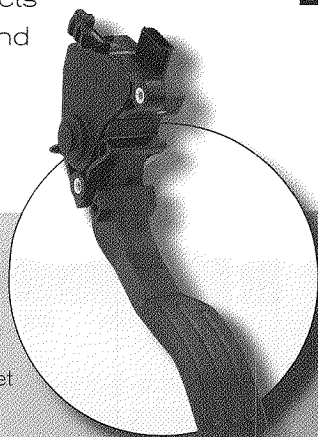
Successfully expanding into diesel markets.

- For the Chinese light commercial vehicle market (above).
- For industrial power generation equipment (left).



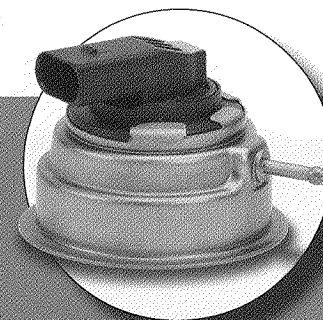
Accelerator Pedal Module

- Serving vehicle makers in all major global markets.
- Secured second global platform
 - Well established in Chinese market
 - New production line in Mexico serving Asian OEMs



Turbocharger Sensor

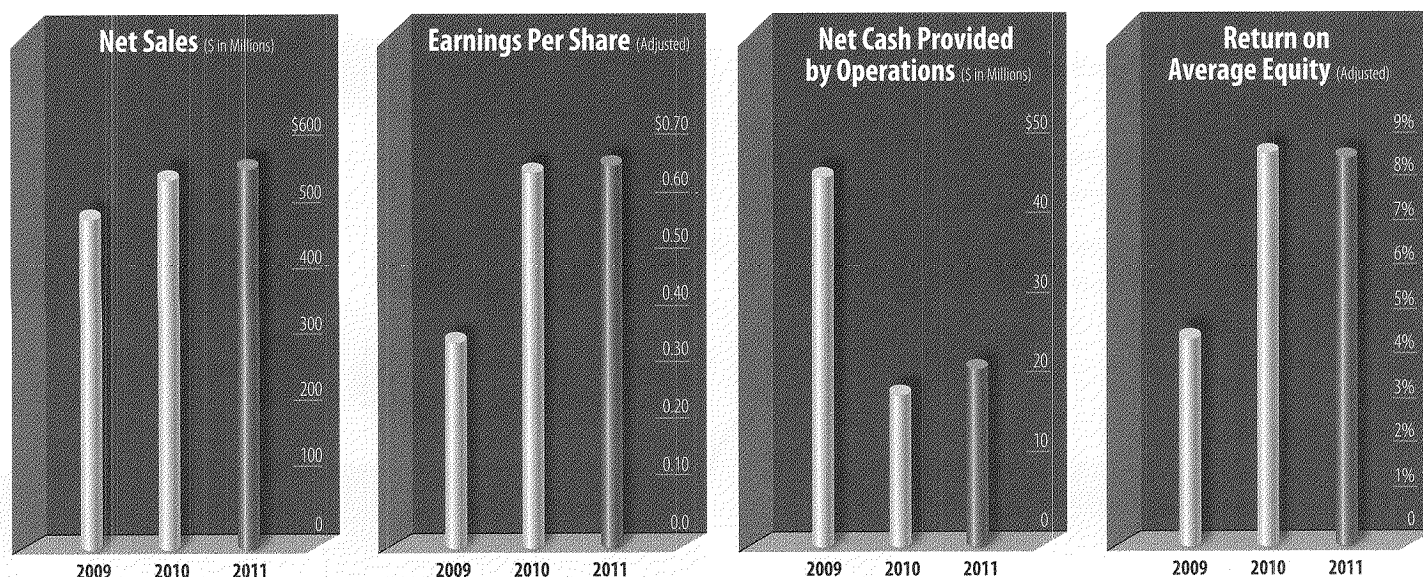
- Non-contacting turbocharger sensor is an essential element of a pneumatic actuator.
- Increases performance on light-vehicle diesel engines.



Financial Highlights

(In thousands, except per share data)

For the Year	2011	2010	2009
Net sales	\$588,506	\$552,641	\$498,982
Operating earnings/(loss) - GAAP	25,240	27,843	(17,829)
- Adjusted	28,725	29,541	17,567
Net earnings/(loss) - GAAP	20,967	22,038	(34,050)
- Adjusted	23,422	23,147	12,045
Average shares outstanding -- diluted	35,006	34,849	33,823
Per share data:			
Net earnings/(loss) -- diluted - GAAP	\$0.60	\$0.63	\$(1.01)
- Adjusted	0.67	0.66	0.36
Dividends declared	0.125	0.12	0.12
Capital expenditures	15,574	13,271	6,537
Return on average equity	8.7%	8.9%	4.6%
At Year End			
Working capital	\$159,149	\$146,555	\$103,219
Long-term debt	74,400	70,000	50,400
Shareholders' equity	263,297	247,250	247,454
Equity per outstanding share	7.73	8.02	7.30



Adjusted amounts shown above and elsewhere in this document are non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to their nearest GAAP equivalent can be found at CTS' website at www.ctscorp.com. Adjusted earnings data in this document excludes goodwill impairment charges, restructuring and related charges, and certain income tax adjustments.

Sensors and Actuators

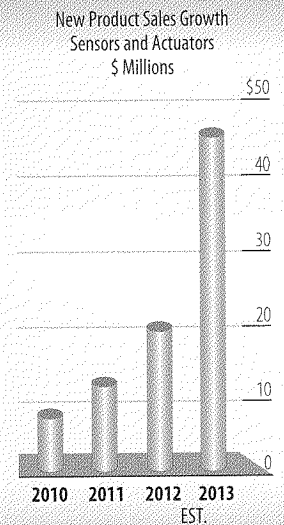
CTS is expecting double-digit revenue growth in its sensor and actuator products over the next three to five years. This accelerated growth is driven by a combination of increased market share from the recent new business awards from our existing customer base and organically developed new products for new customers and applications.

Key new growth initiatives are progressing on schedule. After several years of extensive developmental activities, the first shipments of our highly engineered, brushless DC motor-driven smart actuators were made in 2011 for use on lower-volume heavy-duty industrial engines for power generation applications. However, a more significant increase in our smart actuator business will begin late 2012, directed at the commercial diesel engine markets. This new business represents an organically created new growth opportunity beyond CTS' traditional light-vehicle and two-wheel applications. Significant production volumes from these programs are expected in 2013 with sales of approximately \$20 million, with continued growth in the next few years and reaching \$40 to \$45 million in annual sales by 2015.

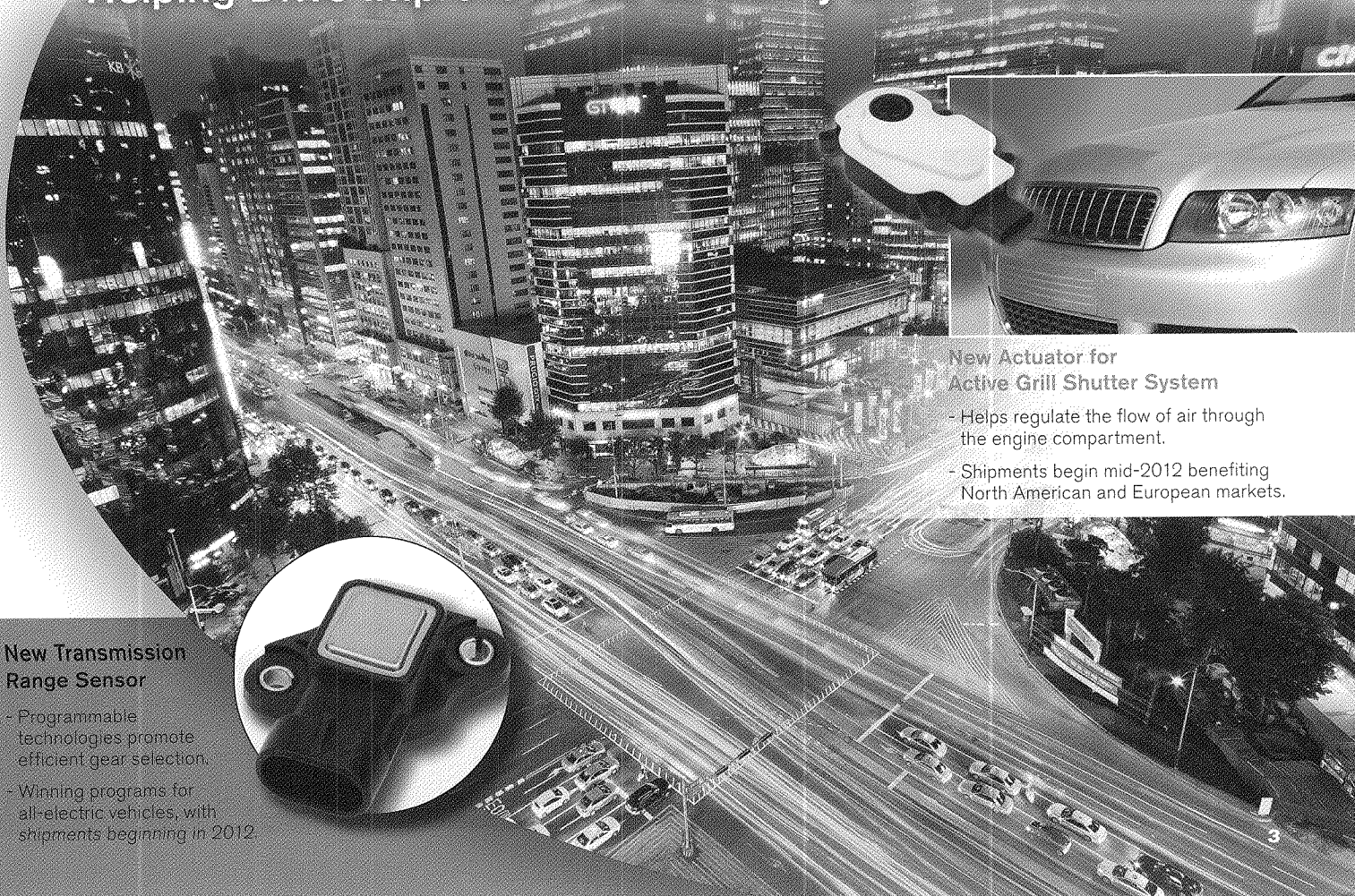
CTS' new turbocharger sensor business, focused on European light vehicle markets, remains an important growth area. The turbocharger market is expected to see significant growth over the next several years, as it offers OEMs the ability to downsize engines, improve fuel economy and reduce emissions, without compromising performance.

A new smart actuator for an active grill shutter system is set to launch in mid-2012. The active grill shutter system significantly improves fuel economy and reduces emissions by regulating the flow of air through the engine compartment based on engine temperature and vehicle speed. The actuator program win is another strategic milestone as we diversify into new markets with new vehicle technology.

CTS has now secured two program wins with new customers for its transmission range sensor specifically designed for all-electric vehicles. Our first shipments start in 2012. With our new transmission range sensor technology, we are actively targeting stop-start hybrid applications.



Helping Drive Improved Fuel Economy and Lower Emissions

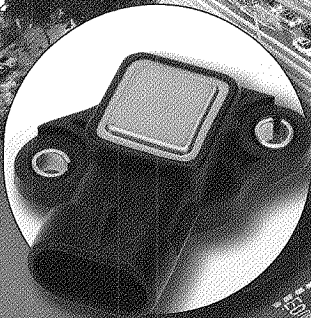


New Actuator for Active Grill Shutter System

- Helps regulate the flow of air through the engine compartment.
- Shipments begin mid-2012 benefiting North American and European markets.

New Transmission Range Sensor

- Programmable technologies promote efficient gear selection.
- Winning programs for all-electric vehicles, with shipments beginning in 2012



Our accelerator pedal module product sales grew 7% in 2011, despite significant disruptions caused by natural disasters in Japan and Thailand. CTS' sales gain reflect securing the second global pedal program for a popular Japanese economy car, and gaining market share from a major Japanese OEM for their popular mid-sized family car produced in North America. Accelerator pedal modules represent a key product line within sensors and actuators, as these sales reached nearly \$100 million for the first time. It is noteworthy to mention that CTS is on target to produce its fifty-millionth accelerator pedal module in 2012.



CTS' new manufacturing facility in Gurgaon, India.

In 2011, we won a total of 24 new sensor and actuator business awards compared to 18 new awards in the prior year. Additionally, we secured nine new sensor and actuator replacement programs, which are an important aspect of maintaining and growing our base business. We were pleased to be honored by GAC Motor Company of China with an Excellent Quality Award for our pedal modules, signifying our commitment to manufacturing high quality products at our Zhongshan, China facility.

We have established a start-up manufacturing facility near New Delhi, India, with infrastructure in place and production lines being readied for initial sensor and actuator shipments by mid-2012. Our local presence provides a significant opportunity to participate in the rapidly growing Indian automotive market and additional business opportunities for various CTS products in its two- and three-wheel light-vehicle markets.

Electronic Components

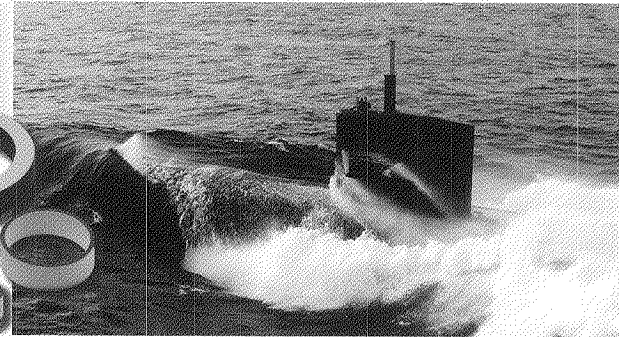
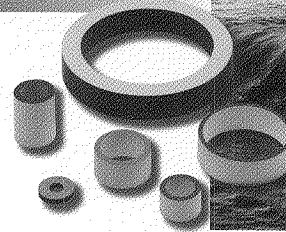
Our Electronic Components products are expected to achieve double-digit sales growth over the next several years. The growth is primarily fueled by increased market share, new product introductions, and small strategic acquisitions to acquire new technologies, products and customers.

Our increased focus on developing new products for new markets and customers in the last several years have begun to pay dividends. One such successful initiative is our new piezoceramic product line for Western Digital disk drive applications. After several years of design, development and testing, we have started shipments of piezoceramic components for high-density disk drives. These components enable next generation dual stage actuation on suspension arms to increase data density. While initial 2011 sales of these piezoceramic components were dampened because our customer was directly impacted by the flooding in Thailand, we are expecting to add approximately \$10 million to \$15 million of new sales for HDD in 2012, with significant further growth opportunities over the next few years.

Electronic Components

Double-digit sales growth expected in electronic components by:

- Capturing increased market share with existing customers
- Organically developing new products for new applications and new customers
- Strategic acquisitions



New Piezoceramic Components

Military applications include piezoceramic rings used in sensor arrays for submarines.

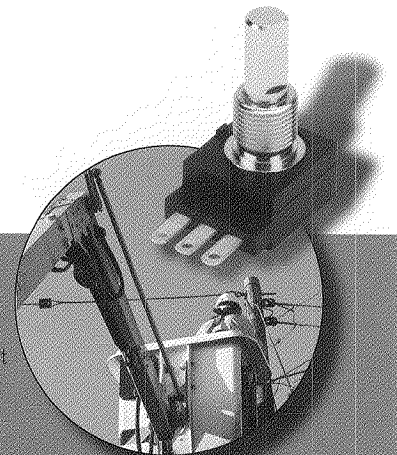
Custom Potentiometer

For commercial and industrial refrigeration temperature controls - in a store near you!



Precision Potentiometer

New applications include industrial joysticks for bucket trucks utilized by utility and construction companies.



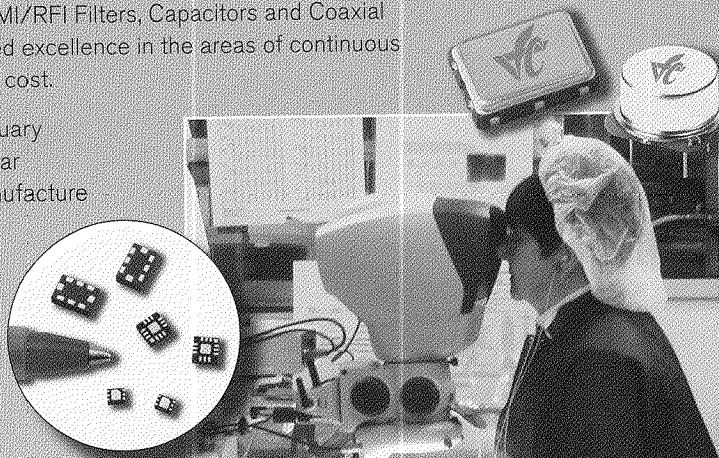
Other major product developments include a new family of Radio Frequency (RF) products. CTS has developed a proprietary ClearPlex™ waveguide filter technology, the only filtering solution currently available that satisfies the wireless market's needs for lower cost and smaller size, while offering electrical performance that approaches air cavities. This new technology is currently being tested by global communications OEMs for their new LTE (4G) and AWS network deployments in Europe and North America. ClearPlex™ technology also extends the performance of mono-block filters for military, commercial aviation radar, public safety and backhaul base station applications.



CTS was also awarded two new piezoceramic production programs in 2011 by a major U.S. sonar manufacturer, with first deliveries expected in 2012. Our Tusonix product group, which specializes in EMI/RFI Filters, Capacitors and Coaxial Resonators, was again recognized as a supplier that has demonstrated excellence in the areas of continuous improvement in quality, speed, flexibility, service, technology and best cost.

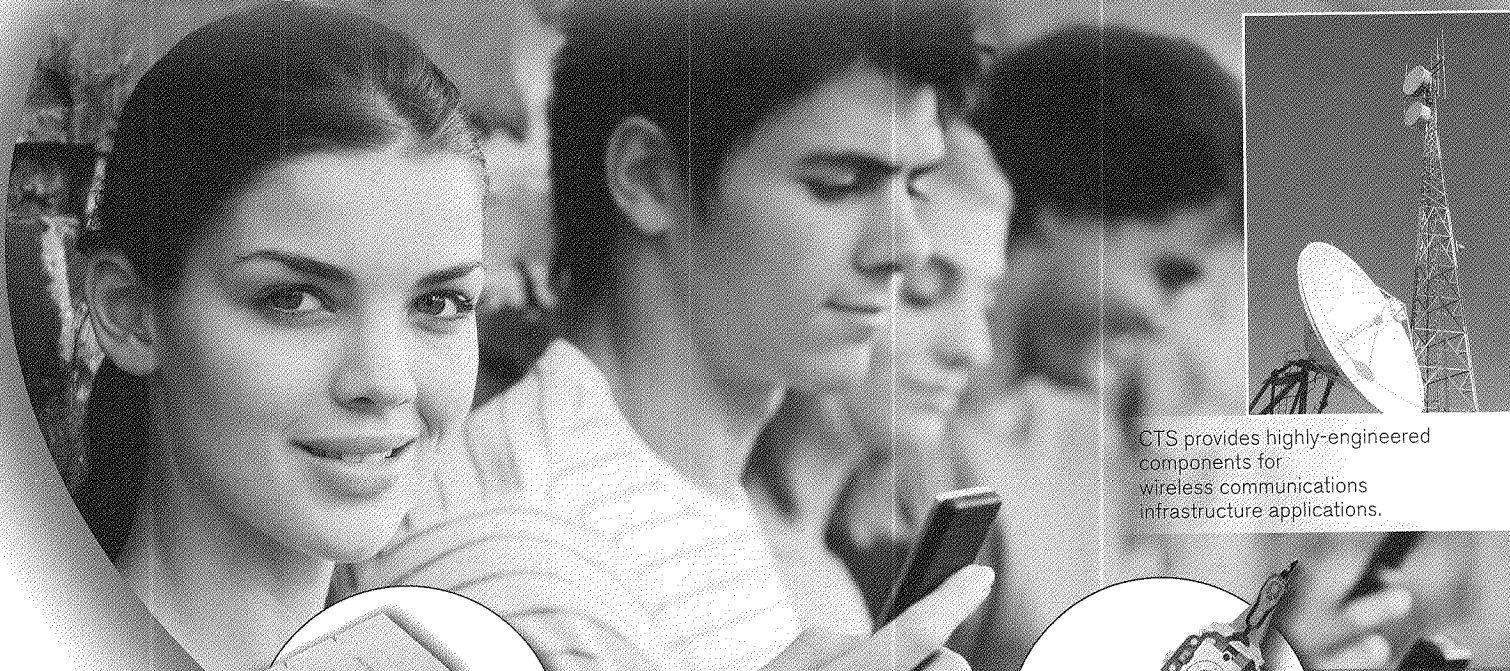
We completed the acquisition of Valpey-Fisher Corporation in January 2012. Valpey-Fisher, previously a publicly-traded company located near Boston, Massachusetts, is a recognized leader in the design and manufacture of precision frequency electronic components. With annual sales of approximately \$15 million, this acquisition will expand CTS' technology and bring strong engineering capabilities and management leadership to support our strategy of double-digit sales growth. We welcome the employees of Valpey-Fisher to the CTS family.

Our family of innovative electro-mechanical products continue to grow steadily through new products and new applications. Sales of variable speed controls for personal scooters and precision encoders for medical CPAP machines have ramped during 2011. New applications for custom precision potentiometers are expected to provide additional growth in 2012. These include industrial joysticks used to control security cameras and aerial lifts and bucket



Newly acquired Valpey-Fisher is a recognized leader in precision frequency electronic components expanding CTS' technology and bringing management leadership.

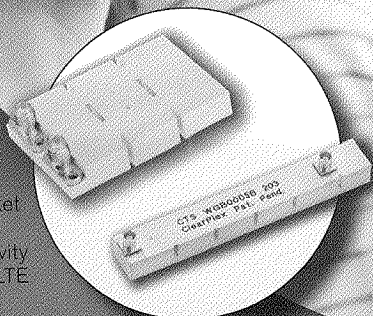
Enabling Improved Mobile Data Traffic Through the "Cloud"



CTS provides highly-engineered components for wireless communications infrastructure applications.

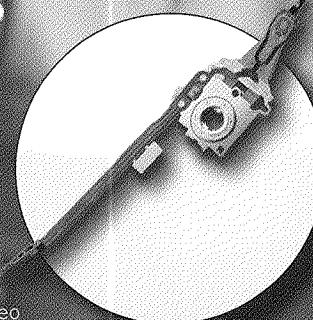
New ClearPlex™ Waveguide Filter

Satisfies wireless market needs for lower cost, smaller size and air-cavity filter performance for LTE and AWS networks.



Piezoceramic HDD- New Product, New Customer, New Market

Enables next generation dual stage actuation on suspension arms for hard disk drives. Supports the explosive growth in video streaming and cloud computing.



trucks used by construction and utility companies, temperature controls for commercial and industrial refrigeration, and customer products for power tools and appliances. CTS also launched a new optical encoder product line that will provide additional growth in applications such as medical ultrasound, test equipment, portable communications, GPS and high end audio.

Electronics Manufacturing Solutions (EMS)

EMS business segment sales grew 14% year-over-year, despite the impact of the severe flooding in Thailand to our manufacturing facility and disruptions from a fire at our EMS Scotland facility. Sales increased primarily in the defense and aerospace, and industrial markets. Combined with EMS sales in medical markets, sales in these target sectors accounted for 65% of total EMS sales in 2011. CTS is well suited to serve these target niche markets, due to our higher design capabilities, global footprint, specific expertise and high-level certifications.

In 2011, EMS won five major new customers primarily in our target markets. New programs with existing and new customers are expected to drive 2012 sales growth in many new applications. Examples include CDMA base station integration programs for global communications OEMs, innovative helmet mounted shock systems to monitor impact on soldiers, commercial and home automation equipment to control energy usage, power systems for new all-electric cars, guidance positioning systems used in knee surgery and biometric security for a population identification initiative in Asia.

We completed the expansion of our lower cost operations in both Thailand and Mexico. The lower cost footprint, combined with the implementation of new cost controls, strategic customer assessments, operational excellence programs and our continued focus on Lean Six Sigma are all expected to contribute to improved performance in 2012 and beyond.

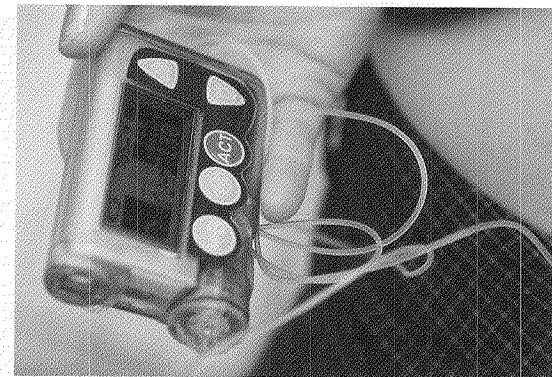
The disruptions from the Thailand floods and the Scotland fire were handled in a very professional manner without any significant disruptions to any of our key customers. I want to take this opportunity to thank the entire global EMS team for their dedication and efforts in minimizing the impact on the Company and fulfilling time sensitive customer requirements without any major disruptions.

In 2011, CTS increased its annual cash dividend to shareholders by 17%, from \$0.12 per share to \$0.14 per share and bought back approximately 400,000 shares of its common stock, reflecting confidence in its ability to generate increasing cash flow going forward. The Company also renewed its revolving bank credit agreement to increase its credit facility from \$150 million to \$200 million at a more favorable pricing structure.

Electronics Manufacturing Solutions (EMS)

Specialized Tier 2 Global EMS provider strategically focused on:

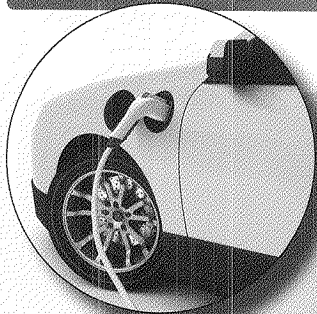
- Targeting customers with complex needs
- Targeting niche sectors: defense & aerospace, industrial and medical
- Providing turnkey services - design to direct ship



Medical

Keeping people active with portable insulin pumps.

Industrial



Supplying the growing need for electric vehicle charging stations.

Defense & Aerospace



Innovative helmet sensors measure force to improve health monitoring.

Providing critical electronics for demanding applications.



50th Anniversary on the NYSE

In 2012, CTS celebrates its 50th anniversary as a public company on the New York Stock Exchange (NYSE). We will commemorate this event by ringing the closing bell on June 4, 2012. This anniversary is quite an accomplishment and a significant milestone, contributing to the rich tradition of CTS, which was originally founded in 1896 in Chicago, Illinois. I am proud of CTS' legacy and look forward to a future of *Driving Growth and Profitability*, through *Innovative Solutions for a Changing World*.



Looking Forward

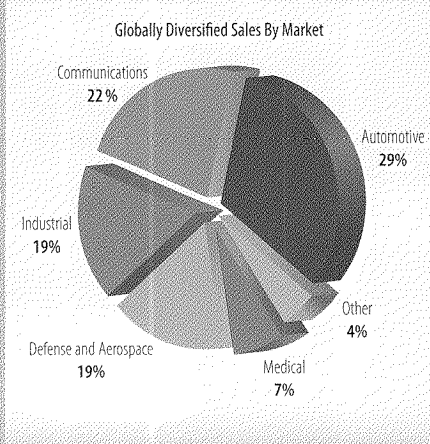
Our spirit of innovation is stronger than ever, exemplified by our robust pipeline of new products for new customers and penetration of new markets. We look forward to the growth opportunities which lay ahead. Our diversified business model, financial strength, strong management team and a passion to serve our customers globally underlies the solid foundation we believe will provide increased shareholder value in the coming years.

I thank our dedicated employees, Board of Directors, customers, shareholders and supply chain partners for their continued support.

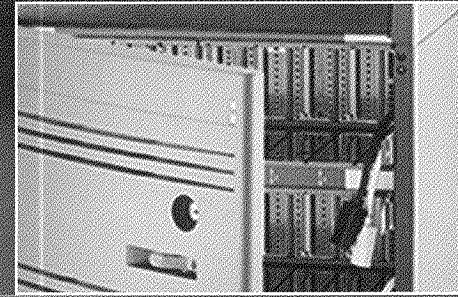
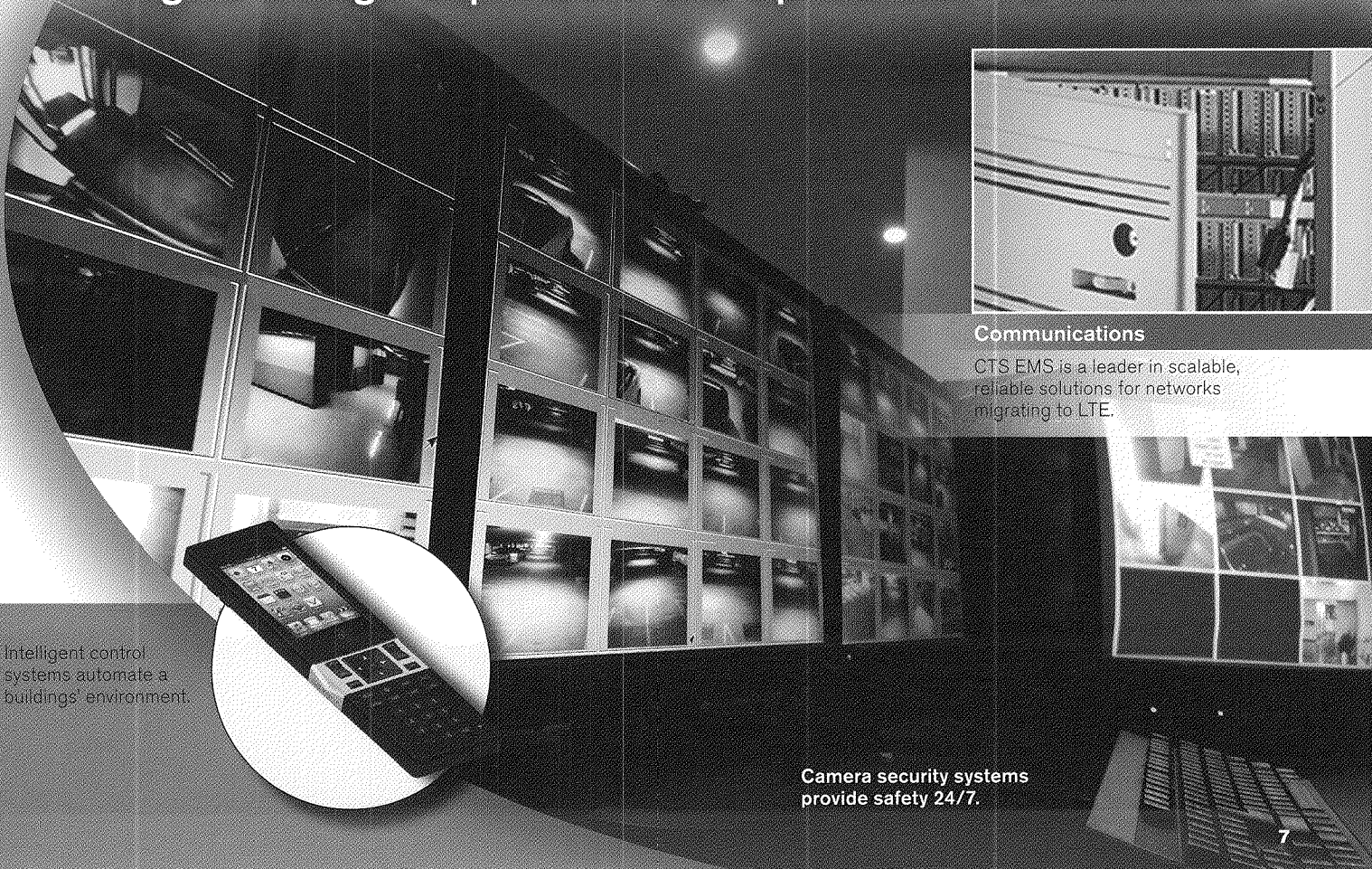
Vinod M. Khilnani

Chairman of the Board,
President and Chief Executive Officer

April 17, 2012



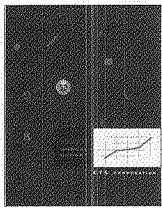
Higher Design Capabilities and Specialized Certifications



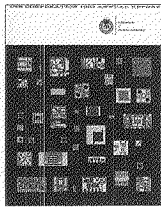
Communications
CTS EMS is a leader in scalable, reliable solutions for networks migrating to LTE.

Intelligent control systems automate a buildings' environment.

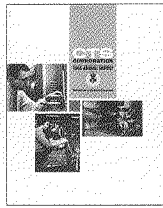
Camera security systems provide safety 24/7.



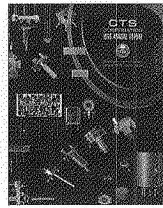
1962



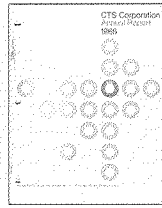
1963



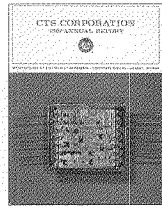
1964



1965



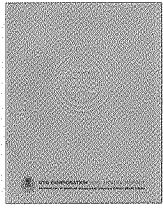
1966



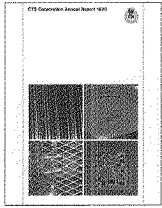
1967



1968



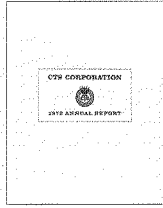
1969



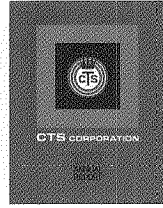
1970



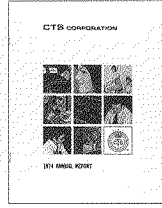
1971



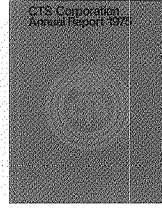
1972



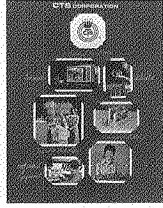
1973



1974



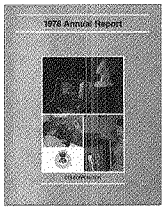
1975



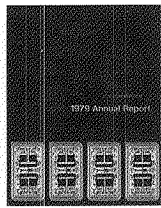
1976



1977



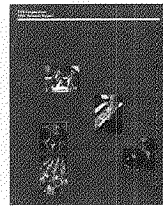
1978



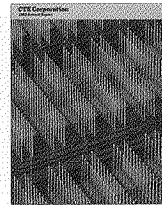
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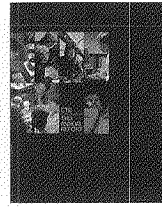
1980



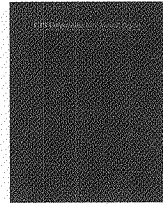
1981



1982



1983



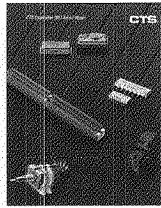
1984



1985



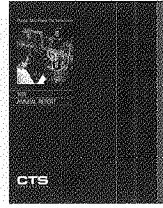
1986



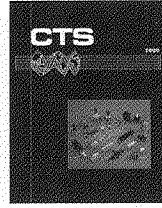
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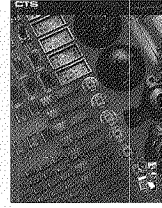
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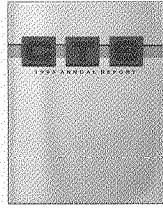
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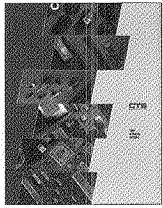
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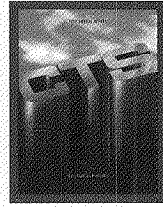
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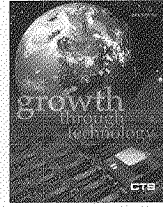
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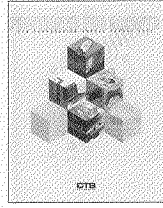
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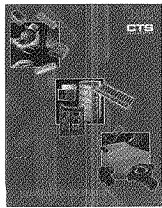
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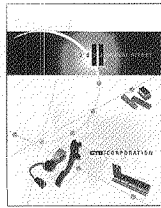
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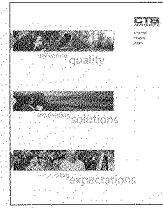
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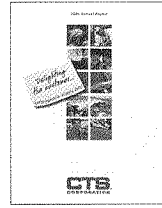
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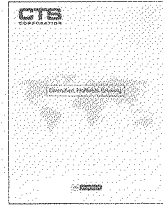
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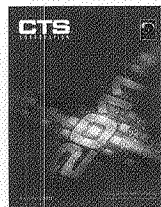
2008



2009



2010



2011

Celebrating 50 Years on the New York Stock Exchange



**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, 2011**

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

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

Title of Each Class

Common stock, without par value

35-0225010

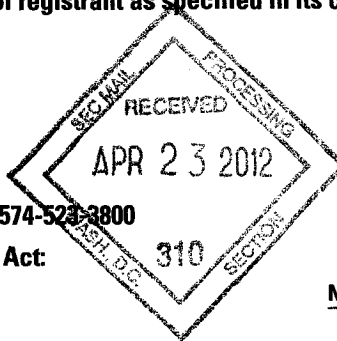
(IRS Employer
Identification Number)

46514

(Zip Code)

Name of Each Exchange on Which Registered

New York Stock Exchange



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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of CTS Corporation, based upon the closing sales price of CTS common stock on July 1, 2011, was approximately \$334 million. There were 34,198,889 shares of common stock, without par value, outstanding on February 20, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the 2011 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 23, 2012 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 businesses in which CTS operates; 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 such as the Japan earthquake and the Thailand flood; the ability to protect our intellectual property; pricing pressures and demand for our products; and risks associated with our international operations, including trade and tariff barriers, exchange rates and political and geopolitical risks. Many of these, and other, risks and uncertainties are discussed in further detail in Item 1.A of this Annual Report on Form 10-K. We undertake no obligation to publicly update our forward-looking statements to reflect new information or events or circumstances that arise after the date hereof, including market or industry changes.

PART I

Item 1. Business

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

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

SEGMENTS AND PRODUCTS BY MAJOR MARKETS

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

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

EMS includes the higher level assembly of electronic and mechanical components into a finished subassembly or assembly performed under a contract manufacturing agreement with an OEM or other contract manufacturer. Additionally, for some customers, we provide full turnkey manufacturing and completion including design, supply chain management, logistics and repair. Products from the EMS segment are principally sold in the communications, defense and aerospace, industrial, medical, and computer OEM markets. Other smaller markets include OEM customers in consumer electronics, instruments and controls, and networking.

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

(As a % of consolidated net sales)	Components & Sensors			EMS			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Markets									
Automotive	29%	32%	27%	—%	—%	—%	29%	32%	27%
Communications	6%	7%	7%	16%	16%	14%	22%	23%	21%
Computer	1%	2%	1%	2%	2%	5%	3%	4%	6%
Medical	2%	2%	1%	5%	5%	8%	7%	7%	9%
Industrial	6%	5%	—%	13%	10%	10%	19%	15%	10%
Defense and Aerospace	2%	2%	2%	17%	15%	20%	19%	17%	22%
Other	1%	1%	5%	—%	1%	—%	1%	2%	5%
% of consolidated net sales	47%	51%	43%	53%	49%	57%	100%	100%	100%

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

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

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

MARKETING AND DISTRIBUTION

Sales and marketing to OEMs, for both segments, is accomplished through our sales engineers, independent manufacturers' representatives, and distributors. We maintain sales offices in China, Japan, Scotland, Singapore, India, Taiwan, and the United States. Approximately 87% of 2011 net sales were attributable to coverage by our sales engineers.

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

We utilize the services of independent manufacturers' representatives in the United States and other countries for customers not serviced directly by our sales engineers for both of our segments. Independent manufacturers' representatives receive commissions from CTS. During 2011, approximately 9% of net sales were attributable to coverage by independent manufacturers' representatives. We also use independent distributors in our Components and Sensors segment. Independent distributors purchase component and sensor products from CTS for resale to customers. In 2011, independent distributors accounted for approximately 4% of net sales.

RAW MATERIALS

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

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

These raw materials are purchased from several vendors, and, except for certain semiconductors, REEs, and conductive inks, we do not believe we are dependent upon one or a limited number of vendors. Although we purchase all of our semiconductors, REEs, and conductive inks from a limited number of vendors, alternative sources are available. During 2011, the global demand for certain REEs that we purchase exceeded the global supply. However, this REEs demand/supply imbalance did not have a material impact on our financial results for the year ended December 31, 2011.

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

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

PATENTS, TRADEMARKS, AND LICENSES

We maintain a program of obtaining and protecting U.S. and non-U.S. patents relating to products that we have designed and manufactured, as well as processes and equipment used in our manufacturing technology. We were issued nine new U.S. patents and 16 non-U.S. counterpart patents in 2011 and currently hold 184 U.S. patents and 133 non-U.S. counterpart patents. Patents have a greater impact on the Components and Sensors segment than on the EMS segment, which does not rely significantly on any patent. We have 10 registered U.S. trademarks and 30 foreign counterparts.

We have licensed the right to use several of our patents to both U.S. and non-U.S. companies. In 2011, license and royalty income was less than 1% of net sales.

MAJOR CUSTOMERS

Our 15 largest customers represented 48% of net sales in 2011 and 2010 and 51% of net sales in 2009. No single customer represented more than 10% of net sales in 2011, 2010 or 2009.

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

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

ORDER BACKLOG

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

The following table shows order backlog by segment and in total as of January 29, 2012, and January 30, 2011.

(\$ in millions)	January 29, 2012	January 30, 2011
Components and Sensors	\$ 40.6	\$ 38.9
EMS	84.0	99.3
Total	\$124.6	\$138.2

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

COMPETITION

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

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

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

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

NON-U.S. REVENUES

In 2011, 37% of net sales to external customers originated from non-U.S. operations compared to 44% in 2010 and 45% in 2009. At December 31, 2011, approximately 44% of total assets were located at non-U.S. operations. At December 31, 2010 and 2009, total assets that were located at non-U.S. operations were approximately 40%. 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, Mexico, Scotland, Singapore, Switzerland, Taiwan, and Thailand.

Net sales to external customers originating from non-U.S. operations for the Components and sensors segment were \$193.3 million in 2011 compared to \$202.2 million in 2010, and \$163.8 million in 2009. Net sales to external customers originating from non-U.S. operations for the EMS segment were \$27.2 million in 2011, compared to \$39.9 million in 2010, and \$60.8 million in 2009. Additional information about net sales to external customers, operating earnings and total assets by segment, and net sales by geographic area and long-lived assets by geographic area, is contained in Note L, "Segments," appearing in the notes to the consolidated financial statements as noted in the Index appearing under Item 15 (a) (1) and (2), which is incorporated herein by reference.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2011, we spent \$20.0 million for research and development activities compared to \$18.3 million in 2010 and \$14.2 million in 2009. Ongoing research and development activity in the Components and Sensors segment is primarily focused on expanded applications and new product development, as well as current product and process enhancements. Research and development expenditures in the EMS segment are typically very low.

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

EMPLOYEES

We employed 4,234 people at December 31, 2011, with 70% of these people located outside the United States. Approximately 160 employees at one location in the United States were covered by two collective bargaining agreements as of December 31, 2011. One agreement, which covers 128 employees, is scheduled to expire in 2015 and the other, which covers 32 employees, is scheduled to expire in 2013. We employed 4,369 people at December 31, 2010.

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 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, Room 1580, 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

Please see Part III, Item 10 of this annual Report on Form 10-K for information about our executive officers, which is incorporated by reference herein.

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 CTS, you should know that making such an investment involves some risks, including the risks described below. *The risks that are highlighted below are not the only ones that we face. If any of the following risks actually occur, our business, financial condition or operating results could be negatively affected.*

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

We depend on a small number of customers for a large portion of our business, and changes in the level of our customers' orders have, in the past, had a significant impact on our results of operations. Our 15 largest customers represent a substantial portion of our sales: approximately 48% of net sales in 2011; 48% of net sales in 2010; and 51% of net sales in 2009. Our largest customer represented less than 10% of our net sales in 2011, 2010 and 2009. If a major customer significantly cancels, delays or reduces the amount of business it does with us, there could be an adverse effect on our business, financial condition and operating results. Such an adverse effect would likely be material if one of our largest customers significantly reduces its amount of business. Significant pricing and margin pressures exerted by a key customer could also materially adversely affect our operating results. In addition, we generate significant accounts receivable from sales to our major customers. If one or more of our largest customers were to become insolvent or otherwise unable to pay or were to delay payment for services, our business, financial condition and operating results could be materially adversely affected.

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

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

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

We base our tax position 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 position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes.

We are subject to intense competition in the EMS industry.

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

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

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

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

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

We may experience difficulties that could delay or prevent the successful development, introduction and marketing of new products or product enhancements and our new products or product enhancements may not adequately meet the

requirements of the marketplace or achieve market acceptance. If we are unable, for technological or other reasons, to develop and market new products or product enhancements in a timely and cost-effective manner, our business, financial condition and operating results could be materially adversely affected.

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

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

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

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

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

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

Net sales to the automotive, defense and aerospace, computer and communications industries represent a substantial portion of our revenues. Factors negatively affecting these industries and the demand for their products also negatively affect our business, financial condition and operating results. Any adverse occurrence, including among others, industry slowdown, recession, political instability, costly or constraining regulations, armed hostilities, terrorism, excessive inflation, prolonged disruptions in one or more of our customers' production schedules or labor disturbances, that results in significant decline in the volume of sales in these industries, or in an overall downturn in the business and operations of our customers in these industries, could materially adversely affect our business, financial condition and operating results. Also, the automotive industry is generally highly unionized and some of our customers have, in the past, experienced labor disruptions. Furthermore, the automotive industry is highly cyclical in nature and sensitive to changes in general economic conditions,

consumer preferences and interest rates. Some of our automotive customers have required government bailouts and/or have filed for bankruptcy reorganization. The failure of one or more automotive manufacturers 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 or their suppliers, and constriction of credit markets may negatively and materially affect our facility utilization, cost structure, financial condition, and operating results.

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

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

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 2.9%, 4.0% and 3.2% of our annual revenue for the years ended December 31, 2011, 2010 and 2009, respectively. We manufacture all pedal assemblies to specifications approved by the customer, including Toyota.

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

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

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

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

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

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

Our operating results vary significantly from period to period.

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

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

We face risks relating to our international operations.

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

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

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

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

In 2011, we implemented two restructuring plans to realign and consolidate certain operations for the purpose of improving their cost structures. The implementation of this plan resulted in the elimination of approximately 130 positions within our global operations. The implementation was substantially completed by the end of December 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, because we are a generator of hazardous wastes, even if we fully comply with applicable environmental laws and requirements, we may be subject to financial exposure for costs, including costs of investigation and any remediation, associated with contaminated sites at which hazardous substances from our operations have been stored, treated or disposed

of. We may also be subject to exposure for such costs at sites that we currently own or operate or formerly owned or operated. Such exposure may be joint and several, so that we may be held responsible for more than our share of the contamination or even for the entire contamination.

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

Our indebtedness may adversely affect our financial health.

As of December 31, 2011, our debt balance was \$74.4 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.

Our credit agreement contains provisions that could materially restrict our business.

Our revolving credit agreement 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 agreement 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 agreement 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 agreement. 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.

We may not be able to recover all costs and losses incurred as a result of the flood impact on our manufacturing operation in Thailand. In addition, we may see an increase in our cost to obtain property and business interruption insurance, or have difficulty in obtaining adequate coverage at some of our locations.

We operate various manufacturing operations globally. In 2011, various parts of our business were impacted by two significant natural disasters – the earthquake and subsequent tsunami in Japan, and then later in the year, the flood in Thailand. Although none of our manufacturing operations were directly impacted by the earthquake, demand for our automotive products decreased as a result of this natural disaster. In Thailand, our factory was impacted, and we have an ongoing insurance claim for this loss. Our ability to recover costs and losses from the insurance carrier may have an impact on financial performance in 2012.

In addition, all insurance carriers are evaluating high risk areas for coverage and premium considerations. It is possible that we may have difficulty in obtaining adequate insurance coverage for our manufacturing locations that get classified as "high risk zones" for potential natural disasters. It is also possible that we may see an increase in cost to obtain insurance coverage for these locations.

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

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 ("the Act"). Our controls necessary for continued compliance with the Act may not operate effectively at all times and may result in a material weakness. The identification of material weaknesses in internal control over financial reporting, if any, could indicate a lack of proper controls to generate accurate financial statements. Further, our internal control effectiveness 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 17, 2012, we had manufacturing facilities, administrative, research and development and sales offices in the following locations:

Manufacturing Facilities	Square Footage	Owned/Leased	Segment
Albuquerque, New Mexico	91,000	Leased	Components and Sensors
Ayutthya, Thailand	70,000	Owned ⁽¹⁾	EMS
Brugg, Switzerland	21,500	Leased	Components and Sensors
Elkhart, Indiana	319,000	Owned	Components and Sensors
Glasgow, Scotland	75,000	Owned	Components and Sensors and EMS
Glasgow, Scotland	37,000	Leased	Components and Sensors and EMS
Haryana, India	8,000	Leased	Components and Sensors
Hopkinton, Massachusetts	32,000	Owned ⁽²⁾	Components and Sensors
Kaohsiung, Taiwan	133,000	Owned ⁽³⁾	Components and Sensors
Londonderry, New Hampshire	54,000	Leased	EMS
Matamoros, Mexico	51,000	Owned	Components and Sensors and EMS
Matamoros, Mexico	59,900	Leased	EMS
Moorpark, California	115,500	Leased	EMS
Nogales, Mexico	67,000	Leased	Components and Sensors
Ostrava, Czech Republic	60,000	Leased	Components and Sensors
San Jose, California	78,800	Leased	EMS
Singapore	159,000	Owned ⁽⁴⁾	Components and Sensors
Streetsville, Ontario, Canada	112,000	Owned	Components and Sensors
Tianjin, China	225,000	Owned ⁽⁵⁾	Components and Sensors and EMS
Tucson, Arizona	48,000	Owned	Components and Sensors
Zhongshan, China	72,400	Leased	Components and Sensors
Total manufacturing	<u>1,889,100</u>		

Non-Manufacturing Facilities	Square Footage	Owned/Leased	Description	Segment
Berne, Indiana	249,000	Owned	Leased to tenant	Components and Sensors
Lisle, Illinois	37,200	Leased	Administrative offices and research	Components and Sensors and EMS
Brownsville, Texas	85,000	Owned	Idle facility	Components and Sensors
Burbank, California	2,900	Leased	Sublet to tenant	Components and Sensors
Elkhart, Indiana	93,000	Owned	Administrative offices and research	Components and Sensors and EMS
Nagoya, Japan	800	Leased	Sales office	Components and Sensors
Nashua, New Hampshire	1,000	Leased	Engineering offices ⁽²⁾	Components and Sensors
Sandwich, Illinois		Owned	Land only	Components and Sensors
Shanghai, China	260	Leased	Sales office	Components and Sensors
Auburn Hills, Michigan	1,600	Leased	Sales office	Components and Sensors
Yokohama, Japan	1,400	Leased	Sales office	Components and Sensors
Total non-manufacturing	<u>472,160</u>			

(1) The land and building are collateral for a credit facility.

(2) These facilities are part of the Valpey-Fisher acquisition in January 2012.

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

(4) Ground lease through 2039; restrictions on use and transfer apply.

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

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

Item 3. Legal Proceedings

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

In February 2010, we entered into an agreement with Toyota whereby Toyota agreed that it will indemnify, defend, and hold us harmless from, and the parties will cooperate in the defense of, certain third-party civil claims and actions that are filed or asserted in the United States or Canada and that arise from or relate to alleged incidents of unintended acceleration of Toyota and Lexus vehicles. If it is determined that CTS acted negligently in selecting materials or processes where we had sole control over the selection process, in failing to meet Toyota's specifications, or in making unapproved changes in component design or materials, and such negligence caused or contributed to a claim, we will be responsible for any judgment that may be rendered against us individually, or any portion of a judgment that may be allocated to us, but limited only to the extent of insurance collected from our insurers. Toyota would remain responsible to defend CTS in these actions and would remain responsible for any balance of the remaining liability over amounts recovered by insurance. The agreement also does not cover costs or liabilities in connection with government investigations, government hearings, or government recalls.

Presently, we have been served process and named as co-defendant with Toyota in approximately thirty-one open lawsuits; we have been dismissed as a defendant from an additional thirty lawsuits. The claims generally fall into two categories, those that allege sudden unintended acceleration of Toyota vehicles led to injury or death, and those that allege economic

harm to owners of Toyota vehicles related to vehicle defects. Some suits combine elements of both. Claims include demands for compensatory and special damages. To date, the only actions filed where we are aware we have been named as a co-defendant are civil actions filed in the United States or Canada. All currently open lawsuits are subject to the indemnification agreement described above. Some of these lawsuits arise out of incidents involving models for which we do not manufacture the pedal, such as all Lexus models, the Toyota Prius, and the Toyota Tacoma, or for which we manufacture only a portion of the pedals, such as the Toyota Camry. Many 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 processes in the manufacture of our current and past products create hazardous waste by-products as currently defined by federal and state laws and regulations. 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 waste remediation at several non-CTS sites. In addition to these non-CTS sites, we have an ongoing practice of providing reserves for probable remediation activities at certain of our manufacturing locations and for claims and proceedings against us with respect to other environmental matters. In the opinion of management, based upon all present available information relating to all such matters, either adequate provisions for probable costs has been made, or the ultimate costs resulting will not materially affect our consolidated financial position, results of operations, or cash flows.

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

Item 4. Mine Safety Disclosures

Not applicable

PART II

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

CTS common stock is listed on the New York Stock Exchange under the symbol "CTS." On February 20, 2012, there were approximately 1,439 common shareholders of record.

During the 4th quarter of 2011, we increased our quarterly dividend rate to \$0.035 per share, or an annual rate of \$0.14 per share. Prior to this increase our practice was to pay quarterly dividends at the rate of \$0.03 per share, or an annual rate of \$0.12 per share. The declaration of a dividend and the amount of any such dividend is subject to earnings, anticipated working capital, capital expenditures, other investment requirements, the financial condition of CTS, and any other factors considered relevant by the Board of Directors.

Per Share Data (Unaudited)

	High ⁽¹⁾	Low ⁽¹⁾	Dividends Declared	Net Earnings	
				Basic	Diluted
2011					
4th quarter	\$10.27	\$ 7.14	\$0.035	\$0.17	\$0.16
3rd quarter	10.18	7.96	0.03	0.17	0.17
2nd quarter	11.10	8.74	0.03	0.12	0.12
1st quarter	12.39	10.03	0.03	0.15	0.15
2010					
4 th quarter	\$11.47	\$ 9.34	\$ 0.03	\$0.15	\$0.13
3 rd quarter	11.84	6.81	0.03	0.20	0.20
2 nd quarter	11.84	8.85	0.03	0.17	0.17
1 st quarter	10.49	6.81	0.03	0.13	0.13

(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, 2011:

	(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 ⁽¹⁾
Balance at October 2, 2011				830,896
October 3, 2011 — October 30, 2011	—	—	—	830,896
October 31, 2011 — November 27, 2011	91,403	\$8.83	91,403	739,493
November 28, 2011 — December 31, 2011	165,340	\$8.65	165,340	574,153

(1) In May 2008, CTS' Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market. The authorization has no expiration date.

Item 6. Selected Financial Data

Five-Year Summary

(In thousands except per share data)

	2011	% of Sales	2010	% of Sales	2009	% of Sales	2008	% of Sales	2007	% of Sales
Summary of Operations										
Net sales	\$ 588,506	100.0	\$ 552,641	100.0	\$ 498,982	100.0	\$ 691,707	100.0	\$ 685,945	100.0
Cost of goods sold	478,657	81.3	432,731	78.3	400,142	80.2	554,634	80.2	553,253	80.7
Insurance recovery for business interruption	(4,082)	(0.7)	—	0.0	—	0.0	—	0.0	—	0.0
Selling, general and administrative expenses ⁽¹⁾	69,284	11.8	69,805	12.6	64,129	12.9	78,755	11.4	78,999	11.5
Research and development expenses	19,990	3.4	18,313	3.3	14,154	2.8	18,306	2.6	15,896	2.3
Insurance recovery for property damage	(6,067)	(1.0)	—	0.0	—	0.0	—	0.0	—	0.0
Amortization of intangible assets	2,606	0.4	2,505	0.5	2,990	0.6	3,615	0.5	3,121	0.5
Restructuring and goodwill impairment charges	2,878	0.5	1,444	0.3	35,396	7.1	5,567	0.8	2,401	0.4
Operating earnings/(loss)	25,240	4.3	27,843	5.0	(17,829)	(3.6)	30,830	4.5	32,275	4.7
Other income/(expense) — net	1,097	0.2	183	—	(2,585)	(0.5)	(4,575)	(0.7)	(2,241)	(0.3)
Earnings/(loss) before income taxes	26,337	4.5	28,026	5.0	(20,414)	(4.1)	26,255	3.8	30,034	4.4
Income tax expense/(benefit)	5,370	0.9	5,988	1.0	13,636	2.7	(1,807)	(0.3)	6,087	0.9
Net earnings/(loss)	20,967	3.6	22,038	4.0	(34,050)	(6.8)	28,062	4.1	23,947	3.5
Retained earnings — beginning of Year	335,524		317,582		355,694		331,675		311,962	
Dividends declared	(4,286)		(4,096)		(4,062)		(4,043)		(4,234)	
Retained earnings — end of year	\$ 352,205		\$ 335,524		\$ 317,582		\$ 355,694		\$ 331,675	
Net earnings/(loss) per share:										
Basic:	\$ 0.61		\$ 0.65		\$ (1.01)		\$ 0.83		\$ 0.67	
Diluted:	\$ 0.60		\$ 0.63		\$ (1.01)		\$ 0.81		\$ 0.66	
Average basic shares outstanding	34,321		34,090		33,823		33,728		35,498	
Average diluted shares outstanding	35,006		34,849		33,823		37,864		39,970	
Cash dividends per share (annualized)	\$ 0.125		\$ 0.12		\$ 0.12		\$ 0.12		\$ 0.12	
Capital expenditures	15,574		13,271		6,537		17,647		16,058	
Depreciation and amortization	17,548		17,565		19,531		24,178		22,818	
Financial Position at Year End										
Current assets	\$ 283,386		\$ 266,655		\$ 193,735		\$ 225,842		\$ 250,840	
Current liabilities	124,237		120,100		90,516		113,241		128,919	
Current ratio	2.3 to 1		2.2 to 1		2.1 to 1		2.0 to 1		1.9 to 1	
Working capital	\$ 159,149		\$ 146,555		\$ 103,219		\$ 112,601		\$ 121,921	
Inventories, net	92,540		76,885		54,348		70,867		73,778	
Net property, plant and equipment	84,860		78,213		81,120		90,756		92,825	
Total assets	480,815		482,584		407,657		488,442		543,615	
Short-term notes payable	—		—		—		—		1,000	
Long-term debt	74,400		70,000		50,400		79,988		68,342	
Long-term obligations, including long-term debt	93,281		88,234		69,687		97,728		88,332	
Shareholders' equity	263,297		274,250		247,454		277,473		326,366	
Common shares outstanding (000s)	34,066		34,197		33,893		33,711		34,313	
Equity (book value) per share	\$ 7.73		\$ 8.02		\$ 7.30		\$ 8.23		\$ 9.51	
Stock price range	\$12.39-7.14		\$11.84-6.81		\$10.62-2.11		13.99-3.99		\$16.33-9.87	

(1) Excludes amortization of intangible assets

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 (2009-2011)" included in the 2011 Annual Report to Shareholders and 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 floating rate revolving credit facility. There was \$74.4 million and \$70.0 million outstanding under our revolving credit agreement at December 31, 2011 and December 31, 2010, respectively. As of December 31, 2011 and 2010, we did not have any outstanding interest rate swap or cap agreements. See Note G, "Debt," to our consolidated financial statements for components of our long-term debt. A one percentage point increase in interest rates would increase our annual interest expense by approximately \$744,000.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risks. Our significant foreign subsidiaries are located in Canada, China, Czech Republic, Scotland, Singapore, Switzerland, Taiwan and Thailand. As of December 31, 2011, we did not have any outstanding foreign currency forward exchange contracts.

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

Commodity Price Risk

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

Item 8. Financial Statements and Supplementary Data

Consolidated financial statements meeting the requirements of Regulation S-X, and the "Report of our Independent Registered Public Accounting Firm," appear in the financial statements and supplementary financial data as noted in the Index appearing under Item 15(a)(1) and (2), and are included in the 2011 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, 2011.

The report from Grant Thornton on its audit of the effectiveness of CTS' internal control over financial reporting as of December 31, 2011, is included on page 16 of Exhibit 13 of this Annual Report on Form 10-K under the heading Report of Independent Registered Public Accounting Firm and is herein incorporated 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, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers. The following serve as executive officers of CTS as of February 23, 2012. 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 23, 2012, at which time the election of officers will be considered again by the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
Vinod M. Khilnani	59	Chairman of the Board, President and Chief Executive Officer
Richard G. Cutter, III	65	Vice President, Law and Business Affairs, Corporate Secretary
Thomas A. Kroll	57	Vice President and Chief Financial Officer
Dennis P. Thornton	50	Senior Vice President and General Manager of CTS Electronic Manufacturing Solutions
Ashish Agrawal	41	Vice President, Treasury and Corporate Development

Vinod M. Khilnani — 59 — Chairman of the Board, President and Chief Executive Officer — was designated Chairman of the Board effective May 27, 2009 and elected President and Chief Executive Officer on July 2, 2007. Prior to accepting this position, Mr. Khilnani held the position of Senior Vice President and Chief Financial Officer since 2001.

Richard G. Cutter — 65 — Vice President, Law and Business Affairs, Corporate Secretary — was named Vice President, Law and Business Affairs, Corporate Secretary effective January 1, 2011. Prior to this, Mr. Cutter was Vice President, Secretary and General Counsel effective December 31, 2001. Prior to this, Mr. Cutter was Vice President, Assistant Secretary and General Counsel since September 2000.

Thomas A. Kroll — 57 — Vice President and Chief Financial Officer. Mr. Kroll was named Vice President and Chief Financial Officer on September 1, 2011. Mr. Kroll was elected Vice President and Controller on October 31, 2002. Prior to this, Mr. Kroll served as Controller Group Accounting since joining CTS in November 2000.

Dennis P. Thornton — 50 — Senior Vice President — was elected Senior Vice President and General Manager of CTS Electronic Manufacturing Solutions effective February 1, 2011. Mr. Thornton was elected Vice President of CTS Corporation effective December 3, 2009. Prior to this, Mr. Thornton served as General Manager for our Automotive Products SBU since joining CTS in 2006.

Ashish Agrawal — 41 — Vice President, Treasury and Corporate Development — was elected Vice President, Treasury and Corporate Development on June 13, 2011. Prior to this, Mr. Agrawal served as Senior Vice President and Chief Financial Officer with Dometic Corporation in Elkhart, IN.

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 2012 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 2012 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 2012 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 2012 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 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules

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

(a) (3) Exhibits

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

- (3)(i) Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 5 to the Current Report on Form 8-K, filed with the SEC on September 1, 1998).
- (3)(ii) Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3 to the Current Report on Form 8-K, filed with the SEC on February 8, 2010).
- (10)(a) Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on November 12, 2008).
- (10)(b) CTS Corporation Stock Retirement Plan for Non-Employee Directors, effective April 30, 1990, as amended (incorporated by reference to Exhibit (10)(a) to the Quarterly Report on Form 10-Q for the quarter ended March 30, 2003, filed with the SEC on April 23, 2003).*
- (10)(c) Amendment to the CTS Corporation Stock Retirement Plan for Non-Employee Directors, dated as of December 1, 2004 (incorporated by reference to Exhibit (10)(j) to the Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 4, 2005).
- (10)(d) CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit (10)(t) to the Annual Report on Form 10-K for the year ended December 31, 2002, filed with the SEC on February 14, 2003).*
- (10)(e) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the quarter ended June 29, 2003, filed with the SEC on July 25, 2003).*
- (10)(f) CTS Corporation 2004 Omnibus Long-term Incentive Plan and Incentive Stock Option Agreement (incorporated by reference to the Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, filed with the SEC on October 19, 2004).*
- (10)(g) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(p) to the Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on February 27, 2006).*
- (10)(h) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 2, 2006, filed with the SEC on April 26, 2006).*
- (10)(i) Credit Agreement, dated as of November 18, 2010, by and among CTS Corporation, the Lenders named therein and Harris N.A. as L/C Issuer, and Administrative Agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K, filed with the SEC on November 22, 2010).
- (10)(j) First amendment to credit agreement dated as of January 10, 2012, by and among CTS Corporation, the lenders name therein and Harris N.A. as L/C issuer and administrative agent (incorporated by reference to Exhibit 10(a) to the current report on Form 8-K filed with the SEC on January 11, 2012).
- (10)(k) Amendment No. 1 to the CTS Corporation 2004 Omnibus Long-term Incentive Plan (incorporated by reference to Exhibit 10(aa) to the Annual Report on Form 10-K filed with the SEC on May 15, 2007).*
- (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.*
- (13) Portions of the 2011 Annual Report to shareholders incorporated herein.
- (21) Subsidiaries.
- (23)(a) 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.LAB XBRL Taxonomy Extension Label Linkbase Document

**101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* *Management contract or compensatory plan or arrangement.*

** *XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.*

SIGNATURES

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

CTS Corporation

Date: February 23, 2012

By: /s/ Thomas A. Kroll
Thomas A. Kroll
Vice President and Chief Financial Officer
(Principal Accounting Officer)

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

Date: February 23, 2012

By: /s/ Vinod M. Khilnani
Vinod M. Khilnani
Chairman of the Board, President,
and Chief Executive Officer
(Principal Executive Officer)

Date: February 23, 2012

By: /s/ Thomas G. Cody
Thomas G. Cody
Lead Director

Date: February 23, 2012

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

Date: February 23, 2012

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

Date: February 23, 2012

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

Date: February 23, 2012

By: /s/ Roger R. Hemminghaus
Roger R. Hemminghaus
Director

Date: February 23, 2012

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

Date: February 23, 2012

By: /s/ Gordon Hunter
Gordon Hunter
Director

Date: February 23, 2012

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

Date: February 23, 2012

By: /s/ Robert A. Profusek

Robert A. Profusek
Director

Date: February 23, 2012

By: /s/ Thomas A. Kroll

Thomas A. Kroll
Vice President and Chief Financial Officer
(Principal Accounting Officer)

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 2011 Annual Report are referenced in Part II, Item 8, filed herewith as Exhibit (13) and incorporated herein by reference:

Consolidated Statements of Earnings/(Loss) — Years ended December 31, 2011, December 31, 2010 and December 31, 2009

Consolidated Balance Sheets — December 31, 2011 and December 31, 2010

Consolidated Statements of Cash Flows — Years ended December 31, 2011, December 31, 2010 and December 31, 2009

Consolidated Statements of Shareholders' Equity — Years ended December 31, 2011, December 31, 2010 and December 31, 2009

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.

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, 2011, management determined that its internal control over financial reporting was effective as of December 31, 2011.

Grant Thornton LLP, an independent registered public accounting firm, has audited CTS' internal control over financial reporting as of December 31, 2011, as stated in their report which is included herein.

CTS Corporation
Elkhart, Indiana
February 23, 2012

/s/ Vinod M. Khilnani

Vinod M. Khilnani
Chairman of the Board, President, and Chief Executive
Officer

/s/ Thomas A. Kroll

Thomas A. Kroll
Vice President and Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT (13)

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

Overview

CTS Corporation ("we", "our", "us") is a global manufacturer of components and sensors used primarily in the automotive, communications and industrial markets. We also provide electronic manufacturing solutions, including design and supply chain management functions, primarily serving the defense and aerospace, communications, industrial and medical markets under contract arrangements with original equipment manufacturers ("OEMs").

Net sales in 2011 of \$588.5 million were reported through two segments, Components and Sensors and Electronics Manufacturing Services ("EMS"), which represented 47.6% and 52.4% of net sales in 2011, respectively. In 2010, Components and Sensors contributed 51.2% of net sales while EMS contributed 48.8% of net sales.

In 2011, sales improved from 2010 primarily due to the impact of increased new product introductions, new customers and higher market penetration. However, sales were negatively impacted by the March 2011 earthquake in Japan, the May 2011 fire at our Scotland facility and October 2011 flooding in Thailand.

Throughout 2011, we continued to focus on two key priorities: (1) improving profitability concurrently with growing sales; and (2) introducing new products, winning new business and increasing our market share. As a result, we continued to see growth in most of our existing markets, as well as new business awards from existing and new customers. We also managed our cost structure and restructured certain operations, to improve operational efficiencies and reduce our headcount.

As discussed in more detail throughout the MD&A:

- Full-year net sales of \$588.5 million in 2011 increased \$35.9 million, or 6.5%, compared to \$552.6 million in 2010, primarily due to the impact of increased new product introductions, new customers and higher market penetration. Net sales in the Components and Sensors segment decreased by 1.1% compared to 2010.

Net sales in the EMS segment increased by 14.4% compared to 2010.

- Gross margin as a percentage of net sales was 18.7% in 2011 compared to 21.7% in 2010 partially due to a temporary shift in segment mix as the EMS segment's percentage of total company net sales increased to 52.4% from 48.8%, partly driven by the Japan earthquake impact on automotive sales. The reduction in gross margin also resulted from higher commodity and precious metal prices, unfavorable product mix and program launch costs for new product introductions.
- Insurance recovery for business interruption due to the fire at our Scotland facility and the flood at our Thailand facility was \$4.1 million in 2011. This amount essentially offsets the related expenses shown in cost of goods sold.
- Selling, general and administrative ("SG&A") and research and development ("R&D") expenses were \$91.9 million in 2011 compared to \$90.6 million in 2010. This increase was primarily driven by R&D spending to develop and launch new commercial market growth initiatives.
- Insurance recovery for property damage due to the fire at our Scotland facility was \$6.1 million in 2011.
- Operating earnings in 2011 were \$25.2 million, compared to \$27.8 million in 2010, primarily due to lower gross margins, which were partially offset by favorable insurance recoveries. Also included in operating earnings were \$3.1 million and \$1.7 million of restructuring and restructuring-related costs for the years ended December 31, 2011 and December 31, 2010, respectively.
- Interest and other income in 2011 was \$1.1 million compared to \$0.2 million in 2010 primarily due to \$0.9 million higher foreign exchange gains in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

- The effective tax rate for 2011 was 20.4% compared to 21.4% in 2010. The decrease in effective tax rate in 2011 compared to 2010 was primarily due to recording less tax expense in jurisdictions with higher marginal tax rates.
- Net earnings were \$21.0 million in 2011 versus \$22.0 million in 2010. Diluted earnings per share were \$0.60 in 2011 compared to \$0.63 in 2010. Adjusted earnings per share for 2011 were \$0.67, which excluded \$0.07 of restructuring and certain additional legal expenses. Adjusted earnings per share for 2010 were \$0.66, which excluded \$0.03 of restructuring charges.

The following table provides a reconciliation of diluted earnings per share to adjusted earnings per share:

	Year ended December 31,	
	2011	2010
Diluted earnings per share	\$0.60	\$0.63
Additional legal costs	0.01	—
Restructuring and restructuring-related charges	0.06	0.03
Adjusted earnings per share	\$0.67	\$0.66

Adjusted earnings per share is a term not recognized by Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). The most directly comparable U.S. GAAP financial measure is diluted earnings per share. We calculate adjusted earnings per share to exclude restructuring, restructuring-related charges and certain additional legal costs.

We use the adjusted earnings per share measure to evaluate overall performance, establish plans and perform strategic analyses. We believe using adjusted earnings per share avoids distortion in the evaluation of operating results by eliminating the impact of events that are not related to operating performance. These measures are based on the exclusion of specific items, and, as such, they may not be comparable to measures used by other companies that have similar titles. Our management compensates for this limitation when performing peer company comparisons by evaluating both GAAP and non-GAAP financial measures reported by peer companies.

We believe that adjusted earnings per share is useful to our management, investors and stakeholders in that it:

- provides a better measure of our operating performance;
- reflects the results used by management in making decisions about the business; and
- helps to review and project our performance over time.

We recommend that investors and stakeholders consider both diluted earnings per share and adjusted earnings per share, which are both GAAP and non-GAAP measures in evaluating our performance with peer companies.

Critical Accounting Policies

Our MD&A is based on our consolidated financial statements that have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, based on historical experience and other assumptions believed to be relevant under the circumstances. Actual results may differ, perhaps materially, from the estimates under different assumptions or conditions.

Our served markets are characterized by rapid technological change and frequent new product introductions and enhancements. These characteristics, along with global economic conditions, are risks that require management judgment when determining appropriate accounting decisions. Management believes that judgments and estimates related to the following critical accounting policies could materially affect our consolidated financial statements:

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

Management makes estimates of the carrying value of our inventory based upon historical usage, new product introductions and projected customer purchase levels. The ever-changing technology environment of the markets we

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

serve affects these estimates. Similarly, management makes estimates of the collectability of our accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Finally, we are involved in litigation in the normal course of business and are regulated under a number of environmental and safety laws. Accruals for known exposures are established based on management's best estimate after considering the advice of legal counsel, when appropriate.

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

We assess the carrying value of long-lived and intangible assets and the remaining useful lives whenever events or changes in circumstances indicate the carrying value may not be recoverable or the estimated useful life may no longer be appropriate. Factors considered important that could trigger this review include significant decreases in operating results, significant changes in our use of the assets, competitive factors, the strategy of our business and significant negative industry or economic trends. Such events may include strategic decisions made in response to the economic conditions relative to product lines, operations and the impact of the economic environment on our customer base. We cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on the reported asset values.

When we determine that the carrying value of long-lived and intangible assets may not be recoverable based on an assessment of future undiscounted cash flows from the use of those assets, an impairment charge to record the assets at fair value may be recorded. Impairment is measured based on fair values utilizing estimated discounted cash flows, published third-party sources, third-party offers and/or information furnished by third-party brokers/dealers.

Goodwill is measured as the excess of cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform goodwill impairment tests at least on an annual basis. In light of a decline in our market capitalization in the first quarter of 2009 we determined that an interim impairment test was necessary at the end of the first quarter of 2009 for both of our reporting units,

Components and Sensors and EMS. After completing step one of the prescribed tests, we determined that the estimated fair values of both reporting units were less than their book values on March 29, 2009. We performed the step two test and concluded that the reporting units' goodwill were impaired. As a result, an impairment loss of \$33.2 million was recorded in the first quarter of 2009. Of the \$33.2 million impairment loss, \$2.4 million was related to the Components and Sensors reporting unit and \$30.8 million was related to the EMS reporting unit. We had goodwill of \$0.5 million at December 31, 2011, 2010 and 2009.

Income Taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax planning and strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances relating to deferred tax assets are recorded on the "more likely than not" criteria.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Deferred tax assets and liabilities are determined based on the difference between the financial statement and income tax bases of assets and liabilities and carry-forwards using currently enacted tax rates. We also review our current tax exposure for situations where tax authorities would assert tax positions different than those we have taken. Such uncertain tax provisions are routinely reviewed and adjusted when required to reflect changes in estimates based on factors such as changes in tax laws, results of tax

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

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authority reviews and statutory limitations. We estimate our income tax valuation allowance by assessing which deferred tax assets are more likely than not to be recovered in the future. The valuation allowance is based on our estimates of taxable income in each jurisdiction in which we operate and the period over which the deferred tax assets will be recoverable.

No valuation allowance was recorded in 2011 against the U.S. federal net deferred tax assets including the U.S. net operating loss carry-forward asset of \$39 million expiring in 2021 through 2024. We assessed the future realization of these deferred tax assets utilizing taxable income projections for years 2012 through 2020. Those projections applied taxable income estimates consistent with historical earnings patterns of our traditional automotive product lines, a return to profitability in our electronic component product lines and benefits from expanding further into target markets in the EMS business. We believe that, based upon the historical operating performance of our business units and the successful cost reduction efforts we, more likely than not, will realize the benefits of our U.S. net deferred tax assets.

Retirement Plans

Actuarial assumptions are used in determining pension income and expense and our pension benefit obligation. We utilize actuaries from consulting companies in each country to develop our discount rates that match high-quality bonds currently available and expected to be available during the period to maturity of the pension benefit in order to provide the necessary future cash flows to pay the accumulated benefits when due. After considering the recommendations of our actuaries we have assumed a discount rate, expected rate of return on plan assets and a rate of compensation increase in determining our annual pension income and expense and the projected benefit obligation. During the fourth quarter of each year, we review our actuarial assumptions in light of current economic factors to determine if the assumptions need to be adjusted. Changes in the actuarial assumptions could have a material effect on our results of operations in future years.

We have two domestic pension plans: a qualified plan and a non-qualified plan. The discount rate used to calculate

our pension income and expense on our domestic plans was 5.5% for 2011. We have two foreign plans: the United Kingdom plan ("UK plan") and the Taiwan plan. The discount rate used to calculate our pension expense for the UK plan is 5.4%. The discount rate used to calculate our pension expense for the Taiwan plan is 1.75%.

The discount rate used to calculate our pension benefit asset and obligation on our domestic plans is 4.9%. The discount rate used to calculate our pension benefit obligation on our UK plan is 4.7%. The discount rate used to calculate our pension benefit obligation on our Taiwan plan is 2.0%.

Discount rates for both our domestic plans and our UK plan are the rates of interest at which it has been assumed that the plan obligation could be effectively settled. The domestic plans and UK plan discount rates are based on the return of high quality bonds available at the date of valuation and expected to be available during the period to maturity of the pension benefits. We use actuarially-determined yield curves to determine these discount rates. The Taiwan plan discount rate is based on the weighted average yield on government bonds available at the date of valuation and expected to be available during the period to maturity of the pension benefits. The government bond rates are directed by the Bank of Taiwan.

The expected return on domestic plan assets remained at 8.5% in 2011. The expected return on our UK plan assets is 4.0%. The expected return for both our domestic plan and our UK plan are based on an allocation of expected returns on investments in equities, bonds and cash. The expected return on our Taiwan plan assets is 1.75%. The expected return on our Taiwan plan is based on government bond rates as directed by the Bank of Taiwan. All pension plans in Taiwan are required to be established with the Bank of Taiwan, which is a government-run entity that utilizes conservative investment strategies. The majority of the Bank of Taiwan's investments are in government bonds. Since the Taiwan plan's assets are invested in government bonds as directed by the Bank of Taiwan, the expected rate of return on plan assets is determined by such government bond rates. In determining the expected rate of return on plan assets, the actuarial consultants to the Taiwan plan consider the amount and timing of pension contributions and benefit payments expected to be made during the year.

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All experienced gains and losses for our qualified domestic plan are amortized over a period of 23 years, which is the expected future lifetime of our inactive employees. All experienced gains and losses for our non-qualified domestic plan are amortized over a period of five years, which is the average remaining service life of our active employees. All experienced gains and losses for our UK plan are amortized over a period of 10 years, which is the average term to normal retirement date of our plan participants. All experienced gains and losses for our Taiwan plan are amortized over a period of 15 years, which is the average remaining service life of our active employees.

Equity-Based Compensation

We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. A number of assumptions are used by the Black-Scholes option-pricing model to compute the grant date fair value, including expected price volatility, option term, risk-free interest rate, and dividend yield. These assumptions are established at each grant date based upon current information at that time. Expected volatilities are based on historical volatilities of CTS common stock. The expected option term is derived from historical data on exercise behavior. Different expected option terms result from different groups of employees exhibiting different behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statements of Earnings/(Loss). The grant date fair values of our service-based and our performance-based restricted stock units ("RSUs") are the closing prices of our stock on the date of grant. The grant date fair value of our market-based RSU is determined by using a simulation or Monte Carlo approach. Under this approach, stock returns from comparator group companies are simulated over the performance period, considering both stock returns volatility and the correlation of returns. The simulated results are then used to estimate the future payout based on the performance/payout relationship established by the conditions of the award. The future payout is discounted to the measurement date using the risk-free interest rate.

Our RSUs and stock options primarily have a graded-vesting schedule. We recognize expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Results of Operations

Segment Discussion

Refer to Note L, "Segments," for a description of our segments.

The following table summarizes net sales and operating earnings/(loss) by segment:

(\$ in thousands)	Components & Sensors	EMS	Total
2011			
Net sales to external customers	\$279,857	\$308,649	\$588,506
Segment operating earnings	\$ 21,356	\$ 7,022	\$ 28,378
% of segment sales	7.6%	2.3%	4.8%
2010			
Net sales to external customers	\$282,860	\$269,781	\$552,641
Segment operating earnings/(loss)	\$ 31,353	\$ (1,813)	\$ 29,540
% of segment sales	11.1%	(0.7)%	5.3%
2009			
Net sales to external customers	\$213,184	\$285,798	\$498,982
Segment operating earnings	\$ 10,295	\$ 7,272	\$ 17,567
% of segment sales	4.8%	2.5%	3.5%

Components and Sensors Segment Discussion

Net sales in the Components and Sensors segment decreased by \$3.0 million, or 1.1% from 2010, primarily attributable to lower net sales of \$1.7 million in the automotive market primarily due to production disruptions caused by the March 2011 earthquake in Japan and lower service parts partly offset by other growth in net sales and to \$1.3 million lower net sales of electronic components.

Components and Sensors segment operating earnings decreased by \$10.0 million, or 31.9%, from the prior year. The unfavorable earnings change resulted primarily from lower net sales, higher commodity prices, program launch costs for new product introductions in 2011, higher R&D costs, and a gain from the sale in 2010 of an idle facility.

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Net sales in the Components and Sensors segment in 2010 increased by \$69.7 million, or 32.7%, from 2009. This increase is attributed to an increase in automotive market sales of \$39.3 million reflecting improvement in global light vehicle production and an increase in electronic component sales of \$23.1 million due to generally improved economic trends driving increased customer demand and new product introductions.

Operating earnings in the Components and Sensors segment in 2010 increased by \$21.1 million, or 204.5%, from the prior year. The favorable earnings change resulted primarily from an increase in sales, partially offset by an increase in R&D costs of \$4.2 million to develop and launch new growth initiatives and an increase in expenses due to the reinstatement of certain compensation-related items that were temporarily suspended during 2009 in response to the recessionary economic environment.

Electronic Manufacturing Services Segment Discussion

Net sales in the EMS segment increased by \$38.9 million, or 14.4%, from 2010. The increase in net sales was due to higher net sales of \$16.6 million in the defense and aerospace market, \$16.4 million in the industrial market, \$5.2 million in the communications market and \$4.2 million in the computer market, partially offset by lower net sales of \$0.7 million in the medical market.

EMS segment operating earnings increased by \$8.8 million in 2011 to \$7.0 million versus an operating loss of \$1.8 million in 2010. The favorable earnings change was primarily due to a \$6.1 million insurance recovery resulting from a fire at the Scotland facility and higher net sales volume.

EMS segment net sales in 2010 decreased by \$16.0 million, or 5.6%, from 2009. The decrease in sales was primarily attributable to decreases in sales of \$16.6 million in the defense and aerospace market, \$13.6 million in the computer market and \$13.3 million in the medical market due to reduced customer demand, which were partially offset by increases in sales of \$19.5 million in the communications markets and \$7.5 million in the industrial markets. Sales in the computer market were driven by a decrease of \$15.9 million in sales to our customer Hewlett-Packard due to a product that reached end-of-life in 2009.

End-of-life typically means that the product is no longer required by the customer due to a design change or technological advancement.

Our 2010 EMS segment operating losses of \$1.8 million decreased by \$9.1 million, or 124.9%, from the prior year. The unfavorable earnings change was primarily due to the negative impact of a decrease in sales, unfavorable product mix and an increase in expenses due to the reinstatement of certain compensation-related items that were temporarily suspended during 2009 in response to the recessionary environment.

Sales in Geographic Regions

Our net sales in the Americas were 65% in 2011 and 63% in 2010. The Asia-Pacific region accounted for 20% of total net sales in 2011 and 21% in 2010. Net sales in Europe in 2011 decreased to 15% from 16% in 2010. The following table presents the percentage of net sales into each geographic region within each segment and on a consolidated basis:

Geographic Region	Components & Sensors			EMS			Consolidated Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Americas	37%	41%	38%	89%	85%	80%	65%	63%	62%
Asia-Pacific	39%	35%	37%	4%	8%	15%	20%	21%	25%
Europe	24%	24%	25%	7%	7%	5%	15%	16%	13%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

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Discussion — Most Recent Three Years

The following table highlights significant information from our consolidated results of operations during the past three years:

(\$ in thousands, except per share and other data)	Year ended December 31,		
	2011	2010	2009
Net sales	\$588,506	\$552,641	\$498,982
Cost of goods sold	478,657	432,731	400,142
Gross margin	109,849	119,910	98,840
% of net sales	18.7%	21.7%	19.8%
Insurance recovery for business interruption	(4,082)	—	—
Selling, general and administrative expenses	71,890	72,310	67,119
% of net sales	12.2%	13.1%	13.5%
Research and development expenses	19,990	18,313	14,154
% of net sales	3.4%	3.3%	2.8%
Insurance recovery for property damage	(6,067)	—	—
Restructuring and impairment charges	2,878	1,444	2,243
Goodwill impairment	—	—	33,153
Operating earnings/(loss)	25,240	27,843	(17,829)
% of net sales	4.3%	5.0%	(3.6)%
Interest expense	(2,119)	(1,074)	(1,878)
Other income/(expense)	3,216	1,257	(707)
Earnings/(loss) before income taxes	26,337	28,026	(20,414)
Income tax expense/(benefit)	5,370	5,988	13,636
Effective tax rate	20.4%	21.4%	(66.8)%
Net earnings/(loss)	\$ 20,967⁽¹⁾	\$ 22,038 ⁽²⁾	\$ (34,050) ⁽³⁾
% of net sales	3.6%	4.0%	(6.8)%
Diluted earnings/(loss) per share	\$ 0.60⁽¹⁾	\$ 0.63 ⁽²⁾	\$ (1.01) ⁽³⁾

(1) 2011 net earnings include a net impact of \$2.5 million, or \$0.07 per diluted share, related to restructuring and restructuring-related charges and certain legal expenses.

(2) 2010 net earnings include a net impact of \$1.7 million, or \$0.03 per diluted share, related to restructuring and restructuring-related charges.

(3) 2009 net loss includes \$33.2 million, or \$0.98 per share, of goodwill impairment charges, \$9.1 million,

or \$0.27 per share, for tax expense due to cash repatriation, \$2.5 million, or \$0.07 per share, for a tax valuation allowance related to one of our foreign units and restructuring charges of \$2.2 million, or \$0.05 per share.

Net sales of \$588.5 million in 2011 increased by \$35.9 million, or 6.5%, from 2010 attributable to higher EMS segment net sales of \$38.9 million, offset by lower Components and Sensors segment net sales of \$3.0 million. The increase in net sales in the EMS segment was due to higher net sales of \$16.6 million in the defense and aerospace market, \$16.4 million in the industrial market, \$5.2 million in the communications market and \$4.2 million in the computer market, partially offset by lower net sales of \$0.7 million in the medical market. Lower net sales in the Components and Sensors segment were attributable to lower net sales of \$1.7 million in the automotive market primarily due to production disruptions caused by the March 2011 earthquake in Japan and lower service parts partly offset by other growth in net sales and to \$1.3 million lower net sales of electronic components.

Net sales of \$552.6 million in 2010 increased by \$53.6 million, or 10.8%, from 2009, primarily attributed to an increase in automotive market sales of \$39.3 million, reflecting improvement in global light vehicle production, and an increase in electronic component sales of \$23.1 million, due to increased customer demand and new product introductions. EMS segment sales in 2010 decreased by \$16.0 million, or 5.6%, from 2009. The decrease in sales was primarily attributable to decreases in sales of \$16.6 million in the defense and aerospace market, \$13.6 million in the computer market and \$13.3 million in the medical market due to reduced customer demand, which were partially offset by increases in sales of \$19.5 million in the communications markets and \$7.5 million in the industrial markets. Sales in the computer market were primarily driven by an expected decrease of \$15.9 million in sales to our customer Hewlett-Packard due to a product that reached end-of-life in 2009. End-of-life typically means that the product is no longer required by the customer due to a design change or technological advancement.

Our 15 largest customers represented 48%, 48%, and 51% of net sales in 2011, 2010, and 2009, respectively. We continue our efforts to broaden our business base through

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expansion in defense and aerospace, industrial and medical markets in the EMS segment and the diversification of automotive sensors and actuators and piezoelectric product offerings in the Components and Sensors segment.

Gross margin in 2011 decreased by \$10.1 million, or 8.4%, from 2010 partially due to a shift in segment mix as the EMS segment's percentage of total company net sales increased to 52.4% from 48.8%. The reduction in gross margin also resulted from higher commodity and precious metal prices, unfavorable product mix, and program launch costs for new product introductions. Further, 2011 included approximately \$4.4 million of flood and fire related costs and expenses.

Gross margins in 2010 increased by \$21.1 million, or 21.3%, from 2009 due to favorable segment sales mix and improved absorption of fixed costs as a result of an increase in net sales. The Components and Sensors segment, which inherently generates a higher gross margin, increased to 51.2% of total company sales in 2010 compared to 42.7% of total sales in 2009.

The insurance recovery for business interruption was \$4.1 million during 2011, essentially offsetting the \$4.4 million of fire and flood related expenses in gross margin. We did not have a similar insurance recovery in 2010.

SG&A expenses were \$71.9 million, or 12.2% of net sales, in 2011 versus \$72.3 million, or 13.1% of net sales, in 2010. This decrease was primarily due to our proactive management of costs.

SG&A expenses were \$72.3 million, or 13.1% of net sales, in 2010 versus \$67.1 million, or 13.5% of net sales, in 2009. The increase was primarily attributable to increased spending of approximately \$3.3 million to support an increase in sales and \$1.9 million resulting from the reinstatement of certain compensation-related items that were temporarily suspended during 2009 due to the recessionary economic environment.

R&D expenses were \$20.0 million, or 3.4% of net sales, in 2011 versus \$18.3 million, or 3.3% of net sales, in 2010. The increase was primarily driven by spending to continue to develop and launch new products and growth initiatives. R&D expenses were incurred by the Components and Sensors segment and were primarily

focused on expanded applications of existing products and new product development, as well as current product and process enhancements.

R&D expenses were \$18.3 million, or 3.3% of net sales, in 2010 versus \$14.2 million, or 2.8% of net sales, in 2009. The increase was primarily driven by spending to develop and launch new growth initiatives. R&D expenses were incurred by the Components and Sensors segment and were primarily focused on expanded applications of existing products and new product development, as well as current product and process enhancements.

Insurance recovery for property damage due to the fire at our Scotland facility was \$6.1 million in 2011. We did not have a similar insurance recovery in 2010.

Operating earnings in 2011 were \$25.2 million, compared to \$27.8 million in 2010, primarily due to lower gross margins, which were partially offset by insurance recoveries. Also included in operating earnings were \$3.1 million and \$1.7 million of restructuring and restructuring-related costs for the years ended December 31, 2011 and December 31, 2010, respectively.

Operating earnings in 2010 was \$27.8 million, compared to an operating loss of \$17.8 million in 2009, primarily due to increased sales and favorable segment sales mix and a one-time goodwill impairment charge in 2009. Also included in operating earnings/(loss) were \$1.7 million and \$2.2 million of restructuring and restructuring-related costs for the years ended December 31, 2010 and December 31, 2009, respectively.

Interest and other income in 2011 was \$1.1 million versus \$0.2 million in the same period of 2010 primarily due to \$0.9 million higher foreign exchange gains in 2011, primarily due to the appreciation of the Chinese currency.

Interest and other income in 2010 was \$0.2 million, versus interest and other expense of \$2.6 million in 2009. Compared to the prior year, interest expense decreased \$0.8 million primarily due to the maturity of our senior subordinated convertible debt in May 2009 that had an effective interest rate of approximately 7%. Foreign currency exchange gain was \$0.7 million in 2010 versus losses of \$1.1 million in 2009, primarily due to the

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weakening of the U.S. dollar relative to most of the currencies of the countries where we do business.

The effective tax rate for 2011 was 20.4% compared to 21.4% in 2010. The decrease in effective tax rate in 2011 compared to 2010 was primarily due to recording less tax expense in jurisdictions with higher marginal tax rates.

The effective tax rate for 2010 was 21.4% compared to negative 66.8% in 2009. Income tax expense in the amount of \$13.6 million was recorded during 2009. This amount included a tax expense of \$9.1 million related to our cash repatriation. Of this \$9.1 million, approximately \$8.6 million was a non-cash expense. Additionally, the \$13.6 million included a valuation allowance charge of \$2.5 million related to one of our Asian tax jurisdictions and a tax benefit of \$0.2 million related to goodwill impairment.

Net earnings of \$21.0 million, or \$0.60 per diluted share, in 2011 compares to \$22.0 million, or \$0.63 per share, in 2010. The 2011 diluted earnings per share included \$0.07 of restructuring charges and additional legal expenses. The 2010 diluted earnings per share included \$0.03 of restructuring charges.

Net earnings were \$22.0 million in 2010 versus net loss of \$34.1 million in 2009. Diluted earnings per share were \$0.63 in 2010 compared to a loss per share of \$1.01 in 2009. The 2010 diluted earnings per share included \$0.03 of restructuring charges. The 2009 loss per share included \$0.98 of goodwill impairment charges, \$0.27 for tax expense due to our cash repatriation, \$0.07 for a tax valuation allowance related to one of our foreign units and restructuring charges of \$0.05.

Restructuring and Restructuring-Related Charges

In October 2011, we announced plans to realign certain manufacturing operations and eliminate approximately 100 net positions during the fourth quarter of 2011. We incurred approximately \$2.4 million of restructuring and restructuring-related costs associated with these actions. As of December 31, 2011, the realignment plans were substantially complete. Of the restructuring and restructuring-related costs incurred, \$2.1 million relates to our Components and Sensors segment and \$0.3 million relates to our EMS segment. Restructuring actions were substantially completed at December 31, 2011.

During April 2011, we initiated restructuring actions to reorganize certain operations to further improve our cost structure. These actions resulted in the elimination of approximately 30 positions. These actions were substantially completed by the end of the second quarter. We incurred approximately \$0.7 million of restructuring costs associated with these actions. Of the restructuring charges incurred, \$0.5 million relates to our Components and Sensors segment and \$0.2 million relates to our EMS segment.

In December 2010, we implemented a restructuring plan to realign and consolidate certain operations for the purpose of improving our cost structure, resulting in the elimination of approximately 80 positions and the write-off of certain inventory and long-lived assets during the fourth quarter of 2010. The implementation was substantially completed by the end of December 2010. We incurred approximately \$1.7 million of restructuring and restructuring-related costs associated with these actions. Of the restructuring and restructuring-related costs incurred, \$1.0 million relates to our Components and Sensors segment and \$0.7 million relates to our EMS segment.

In March 2009, we initiated certain restructuring actions to reorganize certain operations to further improve our cost structure. These actions resulted in the elimination of approximately 268 positions and were completed in the first quarter of 2009. We incurred approximately \$2.2 million of restructuring costs associated with these actions. Of the restructuring and restructuring-related costs incurred, \$2.1 million relates to our Components and Sensors segment and \$0.1 million relates to our EMS segment.

See Note O, "Restructuring Charges," to our consolidated financial statements for further discussion.

Fair Value Measurements

Our non-financial assets that were measured and recorded at fair value on a non-recurring basis consisted of goodwill, intangible assets other than goodwill and long-lived assets. Such assets were classified as Level 3 within the fair value hierarchy. The fair values of these assets were determined using an income approach, such as discounted cash flow analysis. Refer to Note C, "Fair Value Measurements," and Note H, "Retirement Plans," to our

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consolidated financial statements for further discussion.

Our financial instruments consist primarily of cash, cash equivalents, trade receivables and payables, and obligations under short-term notes payable and long-term debt. Our long-term debt consists of a revolving debt agreement. The carrying values for cash and cash equivalents, and trade receivables and payables and short-term notes payable approximate fair value based on the short-term maturities of these instruments. We estimated the fair value of our long-term debt to be \$74.4 million, which approximates its carrying value. There is a ready market for our revolving credit agreement and it is classified within Level 2 of the fair value hierarchy as the market is not deemed to be active. Refer to Note C, "Fair Value Measurements," for further discussion.

Acquisitions

In January 2011, we acquired certain assets and assumed certain liabilities of Fordahl SA, a privately held company located in Brugg, Switzerland. This business was acquired with \$2.9 million cash on hand. The assets acquired include machinery and equipment, inventory and certain intellectual property.

The Fordahl SA product line includes high-performance temperature compensated crystal oscillators and voltage controlled crystal oscillators. This product line expanded our frequency product portfolio from clocks and crystals to highly-engineered precision ovenized oscillators. This acquisition added new customers and opened up new market opportunities.

This acquisition was accounted for using the acquisition method of accounting whereby the total purchase price was allocated to tangible and intangible assets based on the fair market values on the date of acquisition. The pro forma effects of the results of this acquisition were immaterial to our results of operations.

Liquidity and Capital Resources

Overview

Cash and cash equivalents were \$76.4 million at December 31, 2011, compared to \$73.3 million at December 31, 2010. Total debt increased to \$74.4 million

on December 31, 2011 from \$70.0 million on December 31, 2010 primarily to fund domestic working capital requirements as sales increased. Total debt as a percentage of total capitalization was 22.0% at the end of 2011, compared with 20.3% at the end of 2010. Total debt as a percentage of total capitalization is defined as the sum of notes payable, current portion of long-term debt and long-term debt as a percentage of total debt and shareholders' equity.

Working capital increased \$12.6 million in 2011, primarily due to increases in inventory of \$15.7 million partially offset by an increase in accounts payable of \$5.1 million. Inventory increased primarily due to new product launch and production consolidation activities, and disruptions caused by Thailand flood.

Operating Activities

Net cash provided by operating activities was \$22.2 million in 2011. Components of net cash provided by operating activities included net earnings of \$21.0 million and depreciation and amortization expense of \$17.5 million, add-backs of other non-cash items such as equity-based compensation, amortization of retirement benefit, deferred income taxes, net insurance recovery, and restructuring charges totaling \$7.6 million, which were partially offset by net changes in assets and liabilities of \$14.6 million and an increase in prepaid pension asset of \$9.4 million. The changes in assets and liabilities were primarily due to increased inventories of \$16.1 million and decreased accrued liabilities of \$6.6 million partially offset by decreased accounts receivable of \$8.3 million and increased accounts payable of \$3.2 million.

Net cash provided by operating activities was \$19.3 million in 2010. Components of net cash provided by operating activities included net earnings of \$22.0 million and depreciation and amortization expense of \$17.6 million, add-backs of other non-cash items such as equity-based compensation, amortization of retirement benefit, deferred income taxes and restructuring and impairment charges totaling \$12.8 million, which were partially offset by net changes in assets and liabilities of \$24.2 million and an increase in prepaid pension asset of \$8.9 million. The changes in assets and liabilities were primarily due to increased inventories of \$21.9 million and increased accounts receivable of \$23.7 million partially offset by increased accounts payable and accrued liabilities of \$25.3 million all to support an increase in sales.

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Net cash provided by operating activities was \$46.6 million in 2009. Components of net cash provided by operating activities included a net loss of \$34.1 million, restructuring and asset impairment charges of \$35.4 million, depreciation and amortization expense of \$19.5 million and net changes in assets and liabilities of \$19.4 million, partially offset by an increase in prepaid pension asset of \$8.5 million. The changes in assets and liabilities were primarily due to decreased accounts receivable of \$24.0 million and decreased inventories of \$17.1 million, partially offset by decreased accounts payable and accrued liabilities of \$22.6 million.

Investing Activities

Net cash used in investing activities was \$16.4 million in 2011, primarily for capital expenditures of \$15.6 million, capital expenditures to replace property damaged by casualty of \$4.7 million and the Fordahl acquisition of \$2.9 million, partially offset by insurance proceeds for property damage due to casualty of \$6.8 million.

Net cash used in investing activities was \$12.2 million in 2010, primarily for capital expenditures of \$13.3 million, partially offset by proceeds of \$1.5 million received primarily from the sales of an idle facility and undeveloped land.

Net cash used in investing activities was \$5.9 million in 2009, primarily for capital expenditures of \$6.5 million, partially offset by proceeds of \$1.1 million received from the sale of an idle facility.

Free Cash Flow

The following table summarizes our free cash flow:

(\$ in millions)	Year ended December 31,		
	2011	2010	2009
Net cash provided by operations	\$ 22.2	\$ 19.3	\$46.6
Capital expenditures	(15.6)	(13.3)	(6.5)
Insurance proceeds, net of capital expenditures replaced	2.1	—	—
Free cash flow	\$ 8.7	\$ 6.0	\$40.1

Free cash flow is a non-GAAP financial measure that we define as net cash provided by operating activities less capital expenditures. The most directly comparable GAAP measure is net cash provided by operating activities. Management uses free cash flow to evaluate financial

performance and in strategic planning, specifically for investing and financing decisions. Management believes free cash flow is a useful measure because it reflects the performance of our overall operations more accurately than net cash provided by operating activities and because it provides investors with the same results that management used as the basis for making decisions about the business. Free cash flow is not an indicator of residual cash available for discretionary spending because it does not take into account mandatory debt service or other non-discretionary spending requirements that are not deducted in the calculation of free cash flow. Management takes these limitations into account when using free cash flow to make investing and financing decisions.

Financing Activities

Net cash used in financing activities in 2011 was \$2.6 million, consisting primarily of \$4.1 million in dividend payments and \$3.6 million in Treasury stock purchases, offset by a net increase in long-term debt of \$4.4 million. The additional debt was primarily used to meet usual working capital requirements as sales increased.

Net cash provided by financing activities in 2010 was \$15.6 million, consisting primarily of a net increase in long-term debt of \$19.6 million, offset by \$4.1 million in dividend payments. The additional debt was primarily used to meet usual working capital requirements as sales increased.

Net cash used in financing activities in 2009 was \$34.6 million, primarily from settling \$32.5 million of senior subordinated debentures in May 2009.

Capital Resources

Refer to Note G, "Debt," to our consolidated financial statements for further discussion.

Long-term debt was comprised of the following at December 31:

(\$ in thousands)	2011	2010
Revolving credit agreement, weighted-average interest rate of 1.9% (2011) and 1.1% (2010), due in 2015	\$74,400	\$70,000
Less current maturities	—	—
Total long-term debt	\$74,400	\$ 70,000

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

On November 18, 2010, we entered into a \$150 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, we can expand the credit facility to \$200 million, subject to participating banks' approval. There was \$74.4 million and \$70.0 million outstanding under the revolving credit agreement at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, we had \$72.8 million and \$77.2 million, respectively, available under this agreement, net of standby letters of credit of \$2.8 million. Interest rates on the revolving credit agreement fluctuate based upon the London Interbank Offered Rate and the Company's quarterly total leverage ratio. We pay a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on the quarterly leverage ratio and was 0.375 percent per annum at December 31, 2011. The revolving credit agreement requires, among other things, that we comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. We were in compliance with all debt covenants at December 31, 2011. The revolving credit agreement 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 agreement 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 make stock repurchases and dividend payments. The revolving credit agreement was scheduled to expire in November 2015.

On January 10, 2012, we amended our November 18, 2010 unsecured revolving credit agreement. This amendment provided for an increase in the revolving credit facility to \$200 million and increased the accordion feature, whereby we can expand the facility to \$300 million, subject to participating banks' approval. Additionally, among other covenants, the amendment reduced the applicable margin by 25 basis points, increased the total consideration we may pay for non-US based acquisitions, and extended the term of the credit agreement through January 10, 2017.

In May 2008, our Board of Directors authorized a program to repurchase up to one million shares of CTS common stock in the open market at a maximum price of \$13 per share. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2011 we repurchased 403,347 shares at a total cost of \$3.6 million or an average \$8.86 per share under this program. No repurchases were made in 2010 and 2009.

In June 2007, our Board of Directors authorized a program to repurchase up to two million shares of our common stock in the open market. The authorization expired on June 30, 2009. Reacquired shares were used to support equity-based compensation programs and for other corporate purposes. No repurchase was made in 2009.

We have historically funded our capital and operating needs primarily through cash flows from operating activities, supported by available credit under our credit agreements. We believe that expected positive cash flows from operating activities and available borrowings under our current credit agreements will be adequate to fund our working capital, capital expenditures and debt service requirements for at least the next twelve months. However, we may choose to pursue additional equity and/or debt financing to provide additional liquidity and/or fund acquisitions.

Capital Requirements

The following table sets forth the impact that contractual obligations, as of December 31, 2011, are expected to have on our liquidity and cash flow in future periods:

(\$ in millions)	Total	Payments Due by Period			
		2012	2013-2014	2015-2016	2017-beyond
Long-term debt, including interest	\$ 80.0	\$ 1.4	\$ 2.9	\$ 75.7	\$ —
Operating lease payments	23.8	6.4	9.1	4.3	4.0
Obligations related to uncertain tax positions	5.3	0.5	0.3	0.1	4.4
Purchase obligations	—	—	—	—	—
Retirement obligations	16.3	1.9	4.0	3.1	7.3
Total	\$125.4	\$10.2	\$16.3	\$83.2	\$15.7

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

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

Retirement obligations include defined benefit and other post-retirement benefits. Please refer to Note H, "Retirement Plans," and Note A, "Summary of Significant Accounting Policies," to our consolidated financial statements, for additional information related to the retirement plans, including important assumptions. We utilize a market-related approach in deriving the fair value of plan assets. We do not expect any significant change in the approach in 2012. For plan asset allocation details, please refer to Note H, "Retirement Plans," to our consolidated financial statements. Our established asset allocation target is 75% stocks and 25% bonds. However, we may elect to make changes to the asset allocation based on the performance of different asset categories after conducting investment portfolio reviews, annual liability measurements and asset/liability studies on a regular basis. Our prepaid pension asset decreased during 2011, primarily due to actual returns on plan assets deviating from expected returns on plan assets. The deviation between expected and actual returns was primarily due to below market returns in our portfolio. We do not expect to make any cash contributions to the qualified U.S. defined benefit plans in the foreseeable future.

We have no off-balance sheet arrangements that have a material current effect or are reasonably likely to have a material future effect on our financial condition or changes in our financial condition.

2012 Outlook

Looking ahead to 2012, assuming no new economic weakness, we anticipate full-year 2012 sales to increase in the range of 10% to 13% over 2011 and diluted earnings per share to be in the range of \$0.75 to \$0.80. Normal quarterly seasonality is expected with stronger second and fourth quarters compared to the first and third quarters.

Scotland EMS Manufacturing Facility Fire

During the second quarter of 2011, a fire occurred at our Scotland EMS manufacturing facility. The fire damaged approximately \$1.6 million of inventory and \$0.2 million of machinery and equipment at net book value. Property insurance coverage with a \$100,000 deductible covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. Business interruption insurance covered the lost sales impact and related fixed costs. Consequently, as of December 31, 2011, we wrote-off approximately \$0.2 million of net book value of machinery and equipment and \$1.6 million of inventory; and recorded to other receivable \$3.1 million of other recoverable costs and \$0.5 million of recoverable building restoration costs. The total fire-related other receivable was approximately \$0.1 million as of December 31, 2011 and was included in Other Current Assets in our Consolidated Balance Sheets.

As a result of the insurance coverage, we recovered approximately \$11.7 million from our insurance carriers. Out of the \$11.7 million recovered, approximately \$3.1 million was for business interruption and the remaining \$8.6 million was for the replacement of damaged property. We recorded a recovery of approximately \$2.7 million for business interruption and a recovery of \$6.1 million for property damage in our Consolidated Statements of Earnings/(Loss) for the year ended December 31, 2011.

Thailand EMS Manufacturing Facility Flood

During the fourth quarter of 2011, our Thailand EMS manufacturing facility was flooded. Based on preliminary

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

estimates, the flood damaged approximately \$0.5 million of inventory and \$0.5 million of fixed assets. We also incurred approximately \$2.5 million of fixed costs at this facility. Local property insurance covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. We also have business interruption insurance under the local policy that covered the lost sales impact and fixed costs. The maximum amount covered under the local insurance policy is approximately \$2.4 million. We also have a secondary global insurance policy that will cover costs not covered by the local policy for up to approximately \$25 million with a deductible of \$250,000.

The insurance carrier for the local policy has indicated that the company will reimburse us for the maximum amount of \$2.4 million. Consequently, we wrote off \$0.5 million of inventory and \$0.5 million of fixed assets to an insurance receivable and recorded a business interruption receivable of \$1.4 million for fixed costs incurred. The remaining \$1.1 million of fixed costs was recorded as a charge to Cost of Goods Sold in the Consolidated Statements of Earnings/(Loss) for the year ended December 31, 2011.

Subsequent Events

On January 10, 2012, we amended our November 18, 2010 unsecured revolving credit agreement. This amendment provided for an increase in the revolving credit facility to \$200 million and increased the accordion feature, whereby we can expand the facility to \$300 million, subject to participating banks' approval. Additionally, among other covenants, the amendment reduced the applicable margin by 25 basis points, increased the total consideration the company may pay for non-US based acquisitions, and extended the term of the credit agreement through January 10, 2017.

In January 2012, we acquired 100% of the common stock of Valpey-Fisher Corporation ("Valpey-Fisher"), a publicly held company located in Hopkinton, Massachusetts for approximately \$18.3 million cash. Valpey-Fisher is a recognized technology leader in the design and manufacture of precision frequency crystal oscillators. This acquisition will expand our technology, and bring strong engineering capabilities and management leadership to support our strategic initiatives in the Component and Sensors' segment.

This acquisition will be accounted for using the acquisition method of accounting whereby the total purchase price will be allocated to tangible and intangible assets and liabilities based on the fair market values on the date of acquisition. We will determine the purchase price allocations on the acquisition based on estimates of the fair values of the assets acquired and liabilities assumed. These allocations are expected to be finalized by the end of 2012.

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). ASU 2011-04 amends Accounting Standards Codification Topic 820, "Fair Value Measurements" ("ASC 820") by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity's shareholders' equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset's current use and the reasons for such a difference. In addition, this ASU amends Accounting Standards Codification 820, "Fair Value Measurements," to require disclosures to include any transfers between

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2009-2011)

(continued)

Level 1 and Level 2 of the fair value hierarchy. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, when adopted, are not expected to have a material impact on our consolidated financial statements.

ASU No. 2011-05, "Presentation of Comprehensive Income"

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The provisions of ASU 2011-05, when adopted, are not expected to have a material impact on our consolidated financial statements.

ASU No. 2011-08, "Testing Goodwill for Impairment"

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08") to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, "Intangibles – Goodwill and Other – Goodwill" ("ASC 350-20") must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a

reporting unit is less than its carrying amount. If entities elect to perform the qualitative assessment and determine that it is not more than likely than not that the reporting unit's fair value is less than the carrying amount, no further evaluation is necessary. However, if entities choose not to perform the qualitative assessment or determines through the qualitative assessment that the reporting unit's fair value is more likely than not less than its carrying amount, then entities would perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on our consolidated financial statements.

ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU Update No. 2011-05"

In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of items Out of Accumulated Other Comprehensive Income in ASU Update No. 2011-05" ("ASU 2011-12"), that defers certain provisions of ASU 2011-05. One of ASU 2011-05's provisions required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this provision is indefinitely deferred by ASU 2011-12. The provisions of ASU 2011-12 are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. These provisions, when adopted are not expected to have a material impact on our financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CTS Corporation

We have audited the accompanying consolidated balance sheets of CTS Corporation (an Indiana corporation) and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of earnings (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Schedule II — Valuation and Qualifying Accounts as of December 31, 2011 and 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, and evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CTS Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

/s/ GRANT THORNTON LLP

Chicago, Illinois
February 23, 2012

CTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings/(Loss)

(In thousands of dollars except per share amounts)

	Year ended December 31,		
	2011	2010	2009
Net sales	\$588,506	\$552,641	\$498,982
Costs and expenses:			
Cost of goods sold	478,657	432,731	400,142
Insurance recovery for business interruption — Note M	(4,082)	—	—
Selling, general and administrative expenses	71,890	72,310	67,119
Research and development expenses	19,990	18,313	14,154
Insurance recovery for property damage — Note M	(6,067)	—	—
Restructuring charges — Note O	2,878	1,444	2,243
Goodwill impairment	—	—	33,153
Operating earnings/(loss)	25,240	27,843	(17,829)
Other (expense)/income:			
Interest expense	(2,119)	(1,074)	(1,878)
Interest income	1,257	385	156
Other	1,959	872	(863)
Total other income/(expense)	1,097	183	(2,585)
Earnings/(loss) before income taxes	26,337	28,026	(20,414)
Income tax expense/(benefit) — Note J	5,370	5,988	13,636
Net earnings/(loss)	\$ 20,967	\$ 22,038	\$ (34,050)
Net earnings/(loss) per share — Note D			
Basic	\$ 0.61	\$ 0.65	\$ (1.01)
Diluted	\$ 0.60	\$ 0.63	\$ (1.01)

The accompanying notes are an integral part of the consolidated financial statements.

CTS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands of dollars except share amounts)

	December 31, 2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 76,412	\$ 73,315
Accounts receivable, less allowances (2011 — \$1,100, 2010 — \$1,269)	88,345	95,930
Inventories, net		
Finished goods	14,697	8,594
Work-in-process	20,602	16,394
Raw materials	57,241	51,897
Total inventories, net	92,540	76,885
Current deferred tax asset — Note J	14,668	12,153
Other current assets	11,421	8,372
Total current assets	283,386	266,655
Property, plant and equipment		
Land	2,240	2,221
Buildings and improvements	87,933	85,271
Machinery and equipment	236,272	235,383
Total property, plant and equipment	326,445	322,875
Accumulated depreciation	(241,585)	(244,662)
Net property, plant and equipment	84,860	78,213
Other assets		
Prepaid pension asset — Note H	4,359	44,075
Goodwill — Note E	500	500
Other intangible assets, net — Note E	29,886	31,432
Deferred income taxes — Note J	76,200	59,956
Other assets	1,624	1,753
Total other assets	112,569	137,716
Total Assets	\$ 480,815	\$ 482,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable — Note F	\$ —	\$ —
Accounts payable	80,468	75,384
Accrued salaries, wages and vacation	15,953	16,937
Income taxes payable	2,975	3,907
Other accrued liabilities	24,841	23,872
Total current liabilities	124,237	120,100
Long-term debt — Note G	74,400	70,000
Other long-term obligations — Notes H and J	18,881	18,234
Contingencies — Note M	—	—
Shareholders' Equity		
Preferred stock — authorized 25,000,000 shares without par value; none issued	—	—
Common stock — authorized 75,000,000 shares without par value; 54,790,110 issued at December 31, 2011 and 54,517,560 shares issued at December 31, 2010	287,661	285,515
Additional contributed capital	39,161	37,775
Retained earnings	352,205	335,524
Accumulated other comprehensive loss	(115,146)	(87,555)
Cost of common stock held in treasury (2011 — 20,724,106 and 2010 — 20,320,759 shares — Note K)	563,881	571,259
	(300,584)	(297,009)
Total shareholders' equity	263,297	274,250
Total Liabilities and Shareholders' Equity	\$ 480,815	\$ 482,584

The accompanying notes are an integral part of the consolidated financial statements.

CTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands of dollars)

	Year ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings/(loss)	\$ 20,967	\$ 22,038	\$ (34,050)
Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities:			
<i>Depreciation and amortization</i>	17,548	17,565	19,531
Prepaid pension asset	(9,363)	(8,935)	(8,548)
Amortization of retirement benefit adjustments — Note H	5,045	4,795	5,359
Equity-based compensation — Note I	3,746	4,035	3,555
Deferred income taxes — Note J	1,166	2,577	5,987
Goodwill impairment	—	—	33,153
Restructuring charge — Note O	2,878	1,444	2,243
Insurance recovery for business interruption and property damage — casualties	(10,149)	—	—
Insurance proceeds for business interruption and property damage other than property, plant and equipment — casualty	4,934	—	—
Changes in assets and liabilities, net of effects from acquisitions			
Accounts receivable	8,345	(23,665)	24,023
Inventories	(16,131)	(21,878)	17,078
Accounts payable	3,171	22,186	(19,761)
Accrued liabilities	(6,607)	2,474	(2,843)
Income taxes payable	(876)	641	(4,284)
Other	(2,483)	(3,953)	5,153
Total adjustments	1,224	(2,714)	80,646
Net cash provided by operations	22,191	19,324	46,596
Cash flows from investing activities:			
Proceeds from sale of assets	33	1,537	1,356
Capital expenditures	(15,574)	(13,271)	(6,537)
Capital expenditures to replace property, plant and equipment damaged in casualties	(4,733)	—	—
Payment for acquisitions, net of cash acquired — Note B	(2,889)	—	—
Earnout payments related to 2008 acquisition	—	(500)	(750)
Insurance proceeds for property, plant and equipment damaged in fire	6,767	—	—
Net cash used in investing activities	(16,396)	(12,234)	(5,931)
Cash flows from financing activities:			
Borrowings of long-term debt	1,967,000	3,493,419	2,902,600
Payments of long-term debt	(1,962,600)	(3,473,819)	(2,932,700)
Borrowings of short-term notes payable	3,103	3,515	9,206
Payments of short-term notes payable	(3,103)	(3,515)	(9,206)
Purchase of treasury stock	(3,575)	—	—
Dividends paid	(4,119)	(4,089)	(4,056)
Exercise of stock options	472	131	—
Other	206	(89)	(438)
Net cash (used in)/provided by financing activities	(2,616)	15,553	(34,594)
Effect of exchange rate changes on cash	(82)	(495)	468
Net increase in cash and cash equivalents	3,097	22,148	6,539
Cash and cash equivalents at beginning of year	73,315	51,167	44,628
Cash and cash equivalents at end of year	\$ 76,412	\$ 73,315	\$ 51,167
Supplemental cash flow information			
Cash paid during the year for:			
Interest	\$ 1,763	\$ 926	\$ 1,056
Income taxes — net	\$ 4,730	\$ 3,770	\$ 8,480

Supplemental schedule of non-cash investing and financing activities:

Refer to Note B, "Acquisitions," for further discussion on non-cash investing and financing activities.

The accompanying notes are an integral part of the consolidated financial statements.

CTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

(In thousands of dollars except share and per share amounts)

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings/ (Loss)	Comprehensive Earnings/ (Loss)	Treasury Stock	Total
Balances at January 1, 2009	\$280,266	\$37,148	\$355,694	\$ (98,626)		\$(297,009)	\$277,473
Net loss			(34,050)		(34,050)		(34,050)
Cumulative translation adjustment, net of tax of \$1,366				3,299	3,299		3,299
Other comprehensive income, net of tax of \$1,987							
Prior service costs				(252)	(252)		(252)
Unrecognized gain				2,294	2,294		2,294
Comprehensive loss					<u>\$(28,709)</u>		
Cash dividends of \$0.12 per share			(4,062)				(4,062)
Issued 181,947 shares on vesting of restricted stock units	2,225	(2,590)					(365)
Tax cost on vesting of restricted stock units		(438)					(438)
Stock compensation		3,555					3,555
Balances at December 31, 2009	\$282,491	\$37,675	\$317,582	\$ (93,285)		\$(297,009)	\$247,454
Net earnings			22,038		22,038		22,038
Cumulative translation adjustment, net of tax of \$1,047				(1,715)	(1,715)		(1,715)
Other comprehensive income, net of tax of \$5,136							
Prior service costs				476	476		476
Unrecognized gain				6,969	6,969		6,969
Comprehensive gain					<u>\$ 27,768</u>		
Cash dividends of \$0.12 per share			(4,096)				(4,096)
Issued 17,500 shares on vesting of stock option — net	131						131
Issued 286,129 shares on vesting of restricted stock units	2,893	(3,885)					(992)
Tax cost on vesting of restricted stock units		(50)					(50)
Stock compensation		4,035					4,035
Balances at December 31, 2010	\$285,515	\$37,775	\$335,524	\$ (87,555)		\$(297,009)	\$274,250
Net earnings			20,967		20,967		20,967
Cumulative translation adjustment, net of tax of \$51				(251)	(251)		(251)
Other comprehensive income, net of tax of \$17,443							
Prior service costs				372	372		372
Unrecognized loss				(27,712)	(27,712)		(27,712)
Comprehensive loss					<u>(6,624)</u>		
Cash dividends of \$0.125 per share			(4,286)				(4,286)
Acquired 403,347 shares for treasury stock						(3,575)	(3,575)
Issued 59,263 shares on exercise of stock options — net	472						472
Issued 213,287 shares on vesting of restricted stock units	1,674	(2,566)					(892)
Tax benefit on vesting of restricted stock units		206					206
Stock compensation		3,746					3,746
Balances at December 31, 2011	\$287,661	\$39,161	\$352,205	\$ (115,146)		\$(300,584)	\$263,297

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — Summary of Significant Accounting Policies

Business: CTS Corporation ("CTS" or the "Company") is a global manufacturer of electronic components and sensors and a supplier of electronic manufacturing services. The Company designs, manufactures, assembles, and sells a broad line of electronic components and sensors and provides electronic manufacturing services primarily to original equipment manufacturers ("OEMs"). CTS operates manufacturing facilities located throughout North America, Asia and Europe and services major markets globally.

Principles of Consolidation: The consolidated financial statements include the accounts of CTS and its wholly-owned subsidiaries. Refer to Note B, "Acquisitions," for a discussion of the acquisitions made by CTS. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of financial statements in conformity within the accounting principles generally accepted in the United States of America ("U.S.") 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 reporting period. Actual results could differ materially from those estimates.

Foreign Currencies: The financial statements of CTS' non-U.S. subsidiaries, except the United Kingdom ("U.K.") subsidiary, are remeasured into U.S. dollars using the U.S. dollar as the functional currency with all remeasurement adjustments included in the determination of net earnings/(loss). CTS' Consolidated Statements of Earnings/(Loss) include approximately \$1.6 million of foreign currency gain for the year ended December 31, 2011, \$0.7 million of foreign currency gain for the year ended December 31, 2010 and \$1.1 million of foreign currency loss for the year ended December 31, 2009.

The assets and liabilities of CTS' U.K. subsidiary are translated into U.S. dollars at the current exchange rate at period end, with resulting translation adjustments made directly to the "accumulated other comprehensive earnings/(loss)" component of shareholders' equity. Statement of earnings/(loss) accounts are translated at the average rates during the period.

Comprehensive Earnings/(Loss): The components of comprehensive earnings/(loss) for CTS include foreign currency translation adjustments, unrecognized pension gains/(losses) and prior service costs, and net earnings/(loss), and are reported within the Consolidated Statements of Shareholders' Equity in the columns titled "Comprehensive Earnings/(Loss)" and "Accumulated Other Comprehensive Earnings/(Loss)."

The table below shows the components of accumulated other comprehensive earnings/(loss) at December 31:

(\$ in thousands)	2011	2010
Accumulated translation, net of tax	\$ (90)	\$ 161
Unrecognized amounts relating to benefit plans, net of tax:		
Net loss	(114,010)	(86,298)
Prior service costs	(1,046)	(1,418)
Accumulated other comprehensive loss	\$(115,146)	\$(87,555)

Revenue Recognition: Substantially all of CTS' revenues are from product sales. CTS recognizes revenue from product sales when title transfers, the risks and rewards of ownership have been transferred to the customer, the sales price is fixed or determinable and collection of the related receivable is probable, which is generally at the time of shipment. The Company has agreements with certain distributors that provide limited rights of return within a limited time and protection against price reductions initiated by the Company. The effect of these programs is estimated based on historical experience and current economic conditions and provisions are recorded at the time of shipment. CTS customers typically have a right to return products that they consider to be defective. Revenue is recorded net of estimated returns of products, based on management's analysis of historical returns, current economic trends and changes in customer demands. All fees billed to the customer for shipping and handling is classified as a component of net sales. All costs associated with shipping and handling is classified as a component of cost of sales. Provisions for returns and other adjustments are provided for in the same period the related sales are recorded based on experience and other relevant factors. CTS classifies sales taxes on a net basis in its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Concentration of Credit Risk: Cash and cash equivalents are maintained in demand deposits, AAA money market mutual funds and U.S. government securities with several major financial institutions. Deposits with these banks exceed the amount of insurance provided on such deposits; however, the deposits typically may be redeemed upon demand and, therefore, bear minimal risk.

Trade receivables subject CTS to the potential for credit risk with major customers. CTS sells its products to customers principally in the automotive, communications, computer, medical, industrial, and defense and aerospace markets, primarily in North America, Europe, and Asia. CTS performs ongoing credit evaluations of its customers to minimize credit risk. CTS does not require collateral. The allowance for doubtful accounts is based on management's estimates of the collectability of its accounts receivable after analyzing historical bad debts, customer concentrations, customer credit worthiness, and current economic trends. Uncollectible trade receivables are charged against the allowance for doubtful accounts when all reasonable efforts to collect the amounts due have been exhausted. Sales to any customer did not exceed 10% of total net sales for the years ended December 31, 2011, December 31, 2010 and December 31, 2009. Significant sales to a single customer expose CTS to a concentration of credit risk. Management, however, believes the likelihood of incurring material losses due to concentration of credit risk is remote.

Research and Development: Research and development costs include expenditures for planned search and investigation aimed at discovery of new knowledge to be used to develop new products or processes or to significantly enhance existing products or production processes. Research and development costs also include the implementation of the new knowledge through design, testing of product alternatives or construction of prototypes. CTS expenses all research and development costs as incurred.

Earnings/(Loss) Per Share: Basic earnings/(loss) per share excludes any dilution and is computed by dividing net earnings/(loss) available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted earnings/(loss) per share reflects the potential dilution that could occur if securities or other contracts to

issue common stock resulted in the issuance of common stock that shared in CTS' earnings. Diluted earnings/(loss) per share is calculated by adding all potentially dilutive shares to the weighted average number of common shares outstanding for the numerator. If the common stock equivalents have an anti-dilutive effect, they are excluded from the computation of diluted earnings/(loss) per share. Refer also to Note D, "Earnings/(Loss) Per Share."

Equity-Based Compensation: CTS recognizes expense related to the fair value of equity-based compensation awards in the Consolidated Statements of Earnings/(Loss). CTS had stock options and restricted stock units outstanding at December 31, 2011. Refer to Note I, "Equity-Based Compensation," for further discussion.

The Company estimates the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. A number of assumptions are used by the Black-Scholes option-pricing model to compute the grant date fair value, including expected price volatility, option term, risk-free interest rate, and dividend yield. These assumptions are established at each grant date based upon current information at that time. Expected volatilities are based on historical volatilities of the Company's stock. The expected option term is derived from historical data on exercise behavior. Different expected option terms result from different groups of employees exhibiting different behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant. The fair value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statements of Earnings/(Loss).

The grant date fair values of our service-based and our performance-based restricted stock units ("RSUs") are the closing prices of our stock on the date of grant. The grant date fair value of our market-based RSU is determined by using a simulation or Monte Carlo approach. Under this approach, stock returns from comparator group companies are simulated over the performance period, considering both stock returns volatility and the correlation of returns. The simulated results are then used to estimate the future payout based on the performance/payout relationship established by the conditions of the award. The future payout is discounted to the measurement date using the risk-free interest rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Both CTS' stock options and restricted stock units primarily have a graded-vesting schedule. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Cash and Cash Equivalents: CTS considers all highly liquid investments with maturities of three months or less from the purchase date to be cash equivalents. Cash includes cash held in domestic and foreign bank accounts. Deposits with these banks exceed the amount of insurance provided on such deposits; however, the deposits typically may be redeemed upon demand and, therefore, bear minimal risk.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Income Taxes: Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, CTS considers tax regulations of the jurisdictions in which the Company operates, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax planning and strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on a "more likely than not" criteria.

The Company recognizes the benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the "more likely than not" threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Refer to Note J, "Income Taxes."

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the

straight-line method. Depreciation on leasehold improvements is computed over the shorter of the useful lives of the improvements or the lease term. Useful lives for buildings and improvements range from 10 to 45 years. Machinery and equipment useful lives range from three to eight years. Amounts expended for maintenance and repairs are charged to expense as incurred. Upon disposition, any related gains or losses are included in operating earnings. Depreciation expense was \$14.9 million, \$15.1 million and \$16.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

CTS assesses the carrying value of long-lived assets and the remaining useful lives whenever events or changes in circumstances indicate an impairment may have occurred. If the undiscounted future cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment charge may be required to reduce the carrying value of the long-lived assets to fair value. Refer to Note C, "Fair Value Measurements," for further discussion.

Retirement Plans: CTS has various defined benefit and defined contribution retirement plans. CTS' policy is to annually fund the defined benefit pension plans at or above the minimum required by law. CTS (1) recognizes the funded status of a benefit plan (measured as the difference between plan assets at fair value and the benefit obligation) in the Company's statement of financial position; (2) recognizes the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit/cost as a component of other comprehensive income; and (3) measures defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position. Refer to Note H, "Retirement Plans."

Goodwill and Other Intangible Assets: CTS does not amortize goodwill, but tests it for impairment annually using a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by senior management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. During the first quarter of 2009, CTS' market capitalization dropped below the net book value of its equity, thus creating a triggering

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

event. This difference was considered while determining if any goodwill impairment exists. The Company completed its impairment analysis during the first quarter of 2009, and determined that goodwill was impaired at the end of the first quarter of 2009. Accordingly, the Company wrote-off approximately \$33.2 million of goodwill related to CTS' prior acquisitions in the first quarter of 2009. The impairment charge is reported as part of consolidated operating earnings/(loss). CTS had approximately \$0.5 million of goodwill at December 31, 2011 and 2010, respectively.

Generally, CTS amortizes the cost of other finite-lived intangibles over a straight-line basis using their estimated useful lives except for the cost of intangibles acquired in the Tusonix, Inc. ("Tusonix"), Orion Manufacturing Inc. ("Orion") and Fordahl S.A. ("Fordahl") acquisitions, which are amortized using a double-declining balance method over their estimated useful lives. CTS assesses useful lives based on the period over which the asset is expected to contribute to CTS' cash flows. CTS reviews the carrying value of its intangible assets whenever events or changes in circumstances indicate an impairment may have occurred. If impaired, the asset is written down to fair value based on either discounted cash flows or appraised values. Refer to Note E, "Intangible Assets," and Note C, "Fair Value Measurements," for further discussion.

Financial Instruments: CTS' financial instruments consist primarily of cash, cash equivalents, trade receivables and payables, and obligations under short-term notes payable and long-term debt. CTS' long-term debt consists of a revolving credit agreement. The carrying values for cash and cash equivalents, and trade receivables and payables and short-term notes payable approximate fair value based on the short-term maturities of these instruments. CTS estimated the fair value of its long-term debt to be \$74.4 million, which approximates its carrying value. There is a ready market for CTS' revolving credit debt and is classified within Level 2 of the fair value hierarchy as the market is not deemed to be active. Refer to Note C, "Fair Value Measurements," for further discussion.

Amortization of Debt Issue Costs: CTS had debt issue costs related to the Company's long-term debt that are being amortized using the straight-line method over the life of the debt or, for convertible debt, the period until the debt is first convertible into common stock. Amortization

expense totaled \$0.2 million in 2011, \$0.1 million in 2010, and \$0.2 million in 2009 and is included in interest expense in the accompanying Consolidated Statements of Earnings/(Loss).

Treasury Stock: CTS uses the cost method to account for its common stock repurchases. CTS purchased 403,347 shares of its common stock for approximately \$3.6 million in the aggregate in 2011. No purchases were made during 2010. Refer to Note K, "Treasury Stock," for further discussion.

Reclassifications: Certain reclassifications have been made for the periods presented in the consolidated financial statements to conform to the classifications adopted in 2011.

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). ASU 2011-04 amends Accounting Standards Codification Topic 820, "Fair Value Measurements" ("ASC 820") by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity's shareholders' equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset's current use and the reasons for such a difference. In addition, this ASU amends Accounting Standards Codification 820, "Fair Value Measurements," to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, when adopted, are not expected to have a material impact on CTS' consolidated financial statements.

ASU No. 2011-05, "Presentation of Comprehensive Income"

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The provisions of ASU 2011-05, when adopted, are not expected to have a material impact on CTS' consolidated financial statements.

ASU No. 2011-08, "Testing Goodwill for Impairment"

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08") to simplify how both public and non-public entities test goodwill for impairment. The amended guidance gives entities the option to qualitatively assess whether the two-step goodwill impairment test under Accounting Standards Codification Topic 350-20, "Intangibles — Goodwill and Other — Goodwill" ("ASC 350-20") must be performed. Under ASU 2011-08, entities can assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If entities elect to perform the qualitative assessment and determine that it is not more than likely than not that the reporting

unit's fair value is less than the carrying amount, no further evaluation is necessary. However, if entities choose not to perform the qualitative assessment or determines through the qualitative assessment that the reporting unit's fair value is more likely than not less than its carrying amount, then entities would perform Step 1 of the goodwill impairment test under ASC 350-20. These provisions are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years, although early adoption is permitted. The provisions of ASU 2011-08, when adopted, are not expected to have a material impact on CTS' consolidated financial statements.

ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU Update No. 2011-05"

In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of items Out of Accumulated Other Comprehensive Income in ASU Update No. 2011-05" ("ASU 2011-12"), that defers certain provisions of ASU 2011-05. One of ASU 2011-05's provisions required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this provision is indefinitely deferred by ASU 2011-12. The provisions of ASU 2011-12 are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. These provisions, when adopted are not expected to have a material impact on CTS' financial statements.

NOTE B — Acquisitions

In January 2011, CTS acquired certain assets and assumed certain liabilities of Fordahl SA, a privately held company located in Brugg, Switzerland. This business was acquired for approximately \$2.9 million, net of cash acquired. The assets acquired include inventory, accounts receivable, leasehold improvements, machinery and equipment, and certain intangible assets.

The Fordahl SA product line includes high-performance temperature compensated crystal oscillators and voltage

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

controlled crystal oscillators. This product line expanded CTS' frequency product portfolio from clock and crystals to highly-engineered precision ovenized oscillators. This acquisition added new customers and opened up new market opportunities for CTS.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

(\$ in thousands)	Estimated Fair Values
	At January 24, 2011
Current assets	\$ 2,298
Property, plant and equipment	2,141
Amortizable intangible assets	1,060
Fair value of assets acquired, including	
\$59 cash acquired	5,499
Less fair value of liabilities acquired	(2,551)
Net assets acquired	2,948
Cash acquired	59
Net cash paid	\$ 2,889

Under the terms of the purchase agreement, CTS may pay a contingent earn out of up to \$0.9 million in cash, based on the achievement of certain financial targets in 2011 through 2013. The fair value of this earn out contingency approximates \$0.4 million, and was recorded as a liability at the acquisition date. However, subsequent to the acquisition date, it was determined that the fair value of the earn-out contingency was impaired and consequently, CTS reduced the earn-out contingency by approximately \$0.3 million as the achievement of certain financial targets is not expected to be met.

The Fordahl acquisition is accounted for using the acquisition method of accounting whereby the total purchase price will be allocated to tangible and intangible assets based on the fair market values on the date of acquisition. CTS determined the purchase price allocations on the acquisition based on estimates of the fair values of the assets acquired and liabilities assumed. CTS finalized the purchase price allocation at December 31, 2011. The land and building, machinery and equipment and intangible assets are classified as Level 3 under the fair value hierarchy. The pro forma effect of this acquisition is not material to CTS' results of operations or financial position.

In January 2012, CTS acquired 100% of the common stock of Valpey-Fisher Corporation ("Valpey-Fisher"), a publicly held company located in Hopkinton, Massachusetts for approximately \$18.3 million. Valpey-Fisher is a recognized technology leader in the design and manufacture of precision frequency crystal oscillators. This acquisition will expand CTS' technology, and bring strong engineering capabilities and management leadership to support the Company's strategic initiatives in CTS' Component and Sensors' segment.

The Valpey-Fisher acquisition will be accounted for using the acquisition method of accounting whereby the total purchase price will be allocated to tangible and intangible assets and liabilities based on the fair market values on the date of acquisition. CTS will determine the purchase price allocations on the acquisition based on estimates of the fair values of the assets acquired and liabilities assumed. These allocations are expected to be finalized by the end of 2012.

NOTE C — Fair Value Measurements

Goodwill represents the excess of the cost of businesses acquired over the fair value of the assets acquired and liabilities assumed. CTS does not amortize goodwill, but tests it for impairment annually using a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment or the component level if discrete financial information is prepared and regularly reviewed by senior management. However, components are aggregated as a single reporting unit if they have similar economic characteristics.

Generally accepted accounting principles stipulate that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below the carrying amount. A two-step method is used to measure the amount of an impairment loss. The first step requires the Company to determine the fair value of the reporting unit and compare that fair value to the net book value of the reporting unit. The fair value of the reporting unit is determined using various valuation techniques, including a discounted cash flow analysis (an income approach) and a market approach which uses current industry information. The second step

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

requires the Company to determine the implied fair value of goodwill and measure the impairment loss as the difference between the book value of the goodwill and the implied fair value of the goodwill. The implied fair value of goodwill must be determined in the same manner as if CTS had acquired those reporting units.

In light of a decline in CTS' market capitalization in the first quarter of 2009, CTS determined that an interim impairment test was necessary at the end of the first quarter of 2009 for both of its reporting units, Components and Sensors and EMS. After completing step one of the prescribed test, CTS determined that the estimated fair values of both reporting units were less than their book values on March 29, 2009. CTS performed the step two test and concluded that the reporting units' goodwill were impaired. As a result, an impairment loss of \$33.2 million was recorded in the first quarter of 2009. Of the \$33.2 million impairment loss, \$2.4 million was related to the Components and Sensors reporting unit and \$30.8 million was related to the EMS reporting unit. This non-cash goodwill impairment has no impact on CTS' debt covenants.

The table below summarizes the non-financial assets that were measured and recorded at fair value on a non-recurring basis as of December 31, 2011 and the losses recorded during the period ended December 31, 2011 on those assets:

(\$ in thousands) Description	Carrying Value at December 31, 2011	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Loss for Year Ended December 31, 2011
Goodwill	\$ 500	\$—	\$—	\$ 500	\$—
Intangible assets, other than goodwill	\$29,886	\$—	\$—	\$29,886	—
Long-lived assets ^{(a), (b)}	\$84,860	\$—	\$—	\$84,860	—
				\$—	—

(a) In 2011, a fire occurred at CTS' Scotland EMS manufacturing facility that damaged approximately \$0.2 million of machinery and equipment. As indicated in Note M, "Contingencies," CTS has property insurance coverage that was adequate to cover the damage to the Company's property. Consequently, the loss was recorded to an insurance receivable and was subsequently reimbursed by the insurance carrier. See Note M, "Contingencies," for further discussion on this topic.

(b) In 2011, a flood occurred at the Company's Thailand EMS manufacturing facility. Based on preliminary estimates, the flood damaged approximately \$0.5 million of long-lived assets. As indicated in Note M, "Contingencies," CTS has a local property insurance coverage and a secondary global policy that will cover the costs not covered by the global policy. The local insurance carrier has indicated that it will reimburse CTS for the maximum amount of coverage, which CTS believes is adequate to cover the property damage sustained in the flood. Consequently, CTS recorded the property damage to an insurance receivable. See Note M, "Contingencies," for further discussion on this topic.

The fair value of these assets were measured and recorded using an income approach. Projected future cash flows related to these assets were used under this approach to determine their fair values.

The following table reconciles the beginning and ending balances of CTS' goodwill for the periods ended December 31, 2011 and December 31, 2010:

(\$ in thousands)	Total
Balance at January 1, 2010	\$500
2010 activity	—
Balance at December 31, 2010	500
2011 activity	—
Balance at December 31, 2011	\$500

See Note E, "Intangible Assets," for further discussion.

The following table reconciles the beginning and ending balances of CTS' intangible assets, other than goodwill for the periods ended December 31, 2011 and December 31, 2010:

(\$ in thousands)	Total
Balance at January 1, 2010	\$33,938
2010 amortization expense	(2,506)
Balance at December 31, 2010	31,432
2011 addition — Note B, "Acquisitions"	1,060
2011 amortization expense	(2,606)
Balance at December 31, 2011	\$29,886

See Note E, "Intangible Assets," for further discussion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The following table reconciles the beginning and ending balances of CTS' long-lived assets for the periods ended December 31, 2011 and December 31, 2010:

(\$ in thousands)	Total
Balance at January 1, 2010	\$ 81,120
Capital expenditures	13,271
Depreciation expense	(15,059)
Disposals and write-offs	(830)
Foreign exchange impact and other	(289)
Balance at December 31, 2010	78,213
Capital expenditures	15,574
Capital expenditures to replace property, plant & equipment damaged in Scotland fire	4,733
Fixed assets acquired in Fordahl acquisition — Note B	2,141
Depreciation expense	(14,942)
Fixed assets written off due to Thailand flood	(427)
Disposals and write-offs	(223)
Foreign exchange impact and other	(209)
Balance at December 31, 2011	\$ 84,860

The table below summarizes the financial liability that was measured at carrying value, which approximates fair value on a recurring basis as of December 31 2011:

(\$ in thousands) Description	Carrying Value at December 31, 2011	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Loss for Year Ended December 31, 2011
Long-term debt	\$74,400	\$—	\$74,400	\$—	\$—

The fair value of long-term debt was measured and recorded using a market approach, which uses current industry information.

NOTE D — Earnings/(Loss) Per Share

The table below provides a reconciliation of the numerator and denominator of the basic and diluted earnings/(loss) per share ("EPS") computations. Basic earnings/(loss) per share is calculated using the weighted average number of common shares outstanding as the denominator and net earnings/(loss) as the numerator. Diluted earnings/(loss) per share is calculated by adding all potentially dilutive shares to the weighted average number of common shares outstanding for the numerator. All anti-dilutive shares are excluded from the computation of diluted earnings/(loss) per share.

The calculations below provide net earnings/(loss), average common shares outstanding, and the resultant earnings/(loss) per share for both basic and diluted EPS for the years ended December 31, 2011, 2010, and 2009.

(\$ in thousands, except per share amounts)	Net Earnings (Numerator)	Shares (In thousands) (Denominator)	Per Share Amount
2011			
Basic EPS	\$ 20,967	34,321	\$ 0.61
Effect of dilutive securities:			
Equity-based compensation plans			
	—	685	
Diluted EPS	\$ 20,967	35,006	\$ 0.60
2010			
Basic EPS	\$ 22,038	34,090	\$ 0.65
Effect of dilutive securities:			
Equity-based compensation plans			
	—	759	—
Diluted EPS	\$ 22,038	34,849	\$ 0.63
2009			
Basic EPS	\$(34,050)	33,823	\$(1.01)
Effect of dilutive securities:			
Equity-based compensation plans			
	—	—	—
Diluted EPS	\$(34,050)	33,823	\$(1.01)

The following table shows the securities that could potentially dilute EPS in the future, but have been excluded from the 2011, 2010, and 2009 diluted earnings/(loss) per share calculations because they are either anti-dilutive or the exercise price exceeds the average market price.

(Number of shares in thousands)	Year ended December 31,		
	2011	2010	2009
Stock options	539	587	1,179
Restricted stock units	—	—	1,103
Securities related to the subordinated convertible debt	—	—	738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE E—Intangible Assets

CTS has the following intangible assets as of December 31:

(\$ in thousands)	2011		2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists/relationships	\$51,424	\$(22,390)	\$51,084	\$(19,999)
Patents	10,319	(10,319)	10,319	(10,319)
Other intangibles	1,220	(368)	500	(153)
Total	62,963	(33,077)	61,903	(30,471)
Goodwill	500	—	500	—
Total net intangible assets	\$63,463	\$(33,077)	\$62,403	\$(30,471)

Of the total net intangible assets at December 31, 2011, \$24.0 million relates to the Components and Sensors segment and \$6.4 million relates to the EMS segment. Of the total net intangible assets at December 31, 2010, \$24.6 million relates to the Components and Sensors segment and \$7.3 million relates to the EMS segment. The goodwill at December 31, 2011 and December 31, 2010 relates to the EMS segment.

CTS recorded amortization expense of \$2.6 million, \$2.5 million, and \$3.0 million for the years ended December 31, 2011, 2010, and 2009, respectively. The weighted average remaining amortization period for the amortizable intangible assets is 14.2 years. CTS estimates annual amortization expense of \$2.6 million in years 2012-2013, \$2.5 million in years 2014-2015, \$2.4 million in 2016 and \$17.3 million thereafter.

NOTE F — Notes Payable

CTS had line of credit arrangements of \$13.7 million and \$20.8 million at December 31, 2011 and 2010, respectively. No amount was outstanding at December 31, 2011 and 2010. These arrangements are generally subject to annual renewal and renegotiation, have no financial covenants, and may be withdrawn at the banks' option. The majority of the line of credit arrangements at December 31, 2011 are unsecured. However, one line of credit for \$0.7 million is secured by the land and building in Thailand. The weighted-average interest rate, computed by relating

interest expense to average daily short-term borrowings, was 2.28% in 2011 and 1.78% in 2010.

NOTE G — Debt

On January 10, 2012, CTS amended its November 18, 2010 unsecured revolving credit agreement. This amendment provided for an increase in the revolving credit facility to \$200 million and increased the accordion feature, whereby CTS can expand the facility to \$300 million, subject to participating banks' approval. Additionally, among other covenants, the amendment reduced the applicable margin by 25 basis points, increased the total consideration the company may pay for non-U.S. based acquisitions, and extended the term of the credit agreement through January 10, 2017.

Long-term debt was comprised of the following at December 31:

(\$ in thousands)	2011	2010
Revolving credit agreement, weighted-average interest rate of 1.9% (2011) and 1.1% (2010), due in 2015	\$74,400	\$70,000
Less current maturities	—	—
Total long-term debt	\$74,400	\$70,000

On November 18, 2010, CTS entered into a \$150 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, CTS can expand the credit facility to \$200 million, subject to participating banks' approval. There was \$74.4 million and \$70.0 million outstanding under the revolving credit agreement at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, CTS has \$72.8 million and \$77.2 million, respectively, available under this agreement, net of standby letters of credit of \$2.8 million. Interest rates on the revolving credit agreement fluctuate based upon the London Interbank Offered Rate and the Company's quarterly total leverage ratio. CTS pays a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on the quarterly leverage ratio and was 0.375 percent per annum at December 31, 2011. The revolving credit agreement requires, among other things, that CTS comply with a maximum total leverage ratio and a minimum fixed charge coverage

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

ratio. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. CTS was in compliance with all debt covenants at December 31, 2011. The revolving credit agreement requires CTS 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 agreement contains restrictions limiting CTS' 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 CTS' subsidiaries and affiliates; and make stock repurchases and dividend payments. The revolving credit agreement was scheduled to expire in November 2015.

NOTE H — Retirement Plans

Defined Benefit and Other Postretirement Benefit Plans

CTS has a number of noncontributory defined benefit pension plans ("Pension Plans") covering approximately 11% of its active employees. Pension Plans covering salaried employees provide pension benefits that are based on the employees' years of service and compensation prior to retirement. Pension Plans covering hourly employees generally provide benefits of stated amounts for each year of service.

CTS provides postretirement life insurance benefits for certain retired employees. Domestic employees who were hired prior to 1982 and certain domestic union employees are eligible for life insurance benefits upon retirement. CTS funds life insurance benefits through term life insurance policies and intends to continue funding all of the premiums on a pay-as-you-go basis.

The Company recognizes the funded status of a benefit plan in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation. The Company also recognizes, as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit/cost.

The measurement date for the Pension Plans and other postretirement plan assets and benefit obligations was December 31, 2011 and 2010. The following table provides a reconciliation of benefit obligation, plan assets, and the funded status of the Pension Plans and other postretirement benefit plan at that measurement date.

(\$ in thousands)	Pension Plans		Other Postretirement Benefit Plan	
	2011	2010	2011	2010
Accumulated benefit obligation	\$258,084	\$238,395	\$ 5,365	\$ 5,395
Change in projected benefit obligation:				
Projected benefit obligation at January 1	\$244,780	\$239,063	\$ 5,395	\$ 5,350
Service cost	2,890	2,983	15	14
Interest cost	12,844	13,277	287	300
Plan amendment and other	(198)	19	—	—
Actuarial loss/(gain)	21,266	3,385	(141)	(75)
Benefits paid	(13,673)	(13,947)	(190)	(194)
Projected benefit obligation at December 31	\$267,909	\$244,780	\$ 5,366	\$ 5,395
Change in plan assets:				
Assets at fair value at January 1	\$277,524	\$253,741	\$ —	\$ —
Actual return on assets	(5,245)	35,301	—	—
Company contributions	1,642	2,512	190	194
Benefits paid	(13,673)	(13,947)	(190)	(194)
Other	(142)	(83)	—	—
Assets at fair value at December 31	\$260,106	\$277,524	\$ —	\$ —
Funded status (plan assets less projected benefit obligations)	\$ (7,803)	\$ 32,744	\$(5,366)	\$(5,395)

The components of the prepaid (accrued) cost, net are classified in the following lines in the Consolidated Balance Sheets at December 31:

(\$ in thousands)	Pension Plans		Other Postretirement Benefit Plan	
	2011	2010	2011	2010
Prepaid pension asset	\$ 4,359	\$44,075	\$ —	\$ —
Other accrued liabilities	(3,761)	(2,069)	(355)	(374)
Other long-term obligations	(8,401)	(9,262)	(5,011)	(5,021)
	\$(7,803)	\$32,744	\$(5,366)	\$(5,395)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

CTS has also recorded the following amounts to Accumulated Other Comprehensive loss at December 31, 2011:

(\$ in thousands)	Pension Plans			Other Postretirement Benefit Plan		
	Unrecognized Loss	Prior Service Cost	Total	Unrecognized Loss/(Gain)	Prior Service Cost	Total
Balance at January 1, 2011	\$ 86,638	\$ 1,418	\$ 88,056	\$(340)	\$—	\$(340)
Amortization of retirement benefits, net of tax	(2,749)	(372)	(3,121)	3	—	3
Reclassification adjustments, net of tax	30,544	—	30,544	(86)	—	(86)
Balance at December 31, 2011	\$114,433	\$1,046	\$115,479	\$(423)	\$—	\$(423)

CTS expects to recognize, on a pre-tax basis, approximately \$6.3 million of losses and \$0.6 million of prior service costs in 2012 related to its Pension Plans. CTS does not expect to recognize any significant amounts of the Other Postretirement Benefit Plan unrecognized amounts in 2012.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for those Pension Plans with accumulated benefit obligation in excess of fair value of plan assets at December 31 is shown below:

(\$ in thousands)	2011	2010
Projected benefit obligation	\$23,638	\$22,336
Accumulated benefit obligation	19,018	20,331
Fair value of plan assets	11,476	11,004

Net pension (income)/postretirement expense for the years ended in December 31 include the following components:

(\$ in thousands)	Pension Plans			Other Postretirement Benefit Plan		
	2011	2010	2009	2011	2010	2009
Service cost	\$ 2,890	\$ 2,983	\$ 3,130	\$ 15	\$ 14	\$ 11
Interest cost	12,844	13,277	13,699	287	300	314
Expected return on plan assets ⁽¹⁾	(24,238)	(24,337)	(24,413)	—	—	—
Amortization of unrecognized:						
Prior service cost	611	816	504	—	—	—
Loss/(gain)	4,439	3,979	4,855	(5)	—	—
Actuarial (gain)/loss	—	—	—	—	—	(102)
Additional cost due to early retirement	670	234	—	—	—	—
Net (income)/expense	\$ (2,784)	\$ (3,048)	\$ (2,225)	\$ 297	\$ 314	\$ 223
Weighted-average actuarial assumptions ⁽²⁾						
Benefit obligation assumptions:						
Discount rate	4.86%	5.44%	5.77%	4.91%	5.51%	5.80%
Rate of compensation increase	2.88%	3.98%	4.02%	—%	—%	—%
Pension income/postretirement expense assumptions:						
Discount rate	5.45%	5.77%	6.83%	5.51%	5.80%	6.90%
Expected return on plan assets ⁽¹⁾	8.28%	8.37%	8.42%	—%	—%	—%
Rate of compensation increase	4.00%	3.98%	4.02%	—%	—%	—%

(1) Expected return on plan assets is net of expected investment expenses and certain administrative expenses.

(2) During the fourth quarter of each year, CTS reviews its actuarial assumptions in light of current economic factors to determine if the assumptions need to be adjusted.

The discount rate utilized to estimate CTS' pension and postretirement obligations is based on market conditions at December 31, 2011, and is determined using a model consisting of high quality bond portfolios that match cash flows of the plans' projected benefit payments based on the plan participants' service to date and their expected future compensation. Use of the rate produced by this model generates a projected benefit obligation that equals the current market value of a portfolio of high quality bonds whose maturity dates match the timing and amount of expected future benefit payments.

The discount rate used to determine 2011 pension income and postretirement expense for CTS' pension and postretirement plans is based on market conditions at December 31, 2010 and is the interest rate used to estimate interest incurred on the outstanding projected benefit obligations during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

CTS utilizes a building block approach in determining the long-term rate of return for plan assets. Historical markets are reviewed and long-term relationships between equities and fixed-income are preserved consistent with the generally accepted capital market principle that assets with higher volatility generate a greater return over the long term. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to ensure for reasonableness and appropriateness.

CTS' pension plan asset allocation at December 31, 2011 and 2010, and target allocation for 2012 by asset category are as follows:

Asset Category	Target Allocations 2012	Percentage of Plan Assets at December 31,	
		2011	2010
Equity securities ⁽¹⁾	75%	63%	67%
Debt securities	25%	31%	27%
Other	—	6%	6%
Total	100%	100%	100%

(1) Equity securities include CTS common stock in the amounts of approximately \$13.4 million (5% of total plan assets) at December 31, 2011 and approximately \$16.1 million (6% of total plan assets) at December 31, 2010.

CTS employs a total return on investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities and funded status. The investment portfolio primarily contains a diversified mix of equity and fixed-income investments. The equity investments are diversified across U.S. and non-U.S. stocks. Other assets such as private equity are used modestly to enhance long-term returns while improving portfolio diversification. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and asset/liability studies at regular intervals.

The following table summarizes the fair values of CTS' pension plan assets at December 31:

(\$ in thousands)	2011	2010
Equity securities — U.S. holdings	\$134,054	\$149,981
Equity securities — Non-U.S. holdings	28,166	36,604
Corporate Bonds	57,569	56,061
Debt securities issued by U.S., state and local governments	17,351	16,328
Cash and cash equivalents	11,806	10,019
Mortgage-backed securities	6,036	3,517
Partnerships	3,586	3,585
Fixed annuities	1,538	1,429
Total fair value of plan assets	\$260,106	\$277,524

The fair values at December 31, 2011 are classified within the following categories in the fair value hierarchy:

(\$ in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities — U.S. holdings ⁽¹⁾	\$134,054	\$ —	\$ —	\$134,054
Equity securities — Non-U.S. holdings ⁽¹⁾	28,166	—	—	28,166
Corporate Bonds ⁽²⁾	40,558	17,011	—	57,569
Debt securities issued by U.S., state and local governments ⁽³⁾	—	17,351	—	17,351
Cash and cash equivalents ⁽⁴⁾	11,806	—	—	11,806
Mortgage-backed securities ⁽⁵⁾	—	6,036	—	6,036
Partnerships ⁽⁶⁾	—	—	3,586	3,586
Fixed annuity contracts ⁽⁷⁾	—	—	1,538	1,538
Total	\$214,584	\$40,398	\$5,124	\$260,106

The fair values at December 31, 2010 are classified within the following categories in the fair value hierarchy:

(\$ in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities — U.S. holdings ⁽¹⁾	\$149,981	\$ —	\$ —	\$149,981
Equity securities — Non-U.S. holdings ⁽¹⁾	36,604	—	—	36,604
Corporate Bonds ⁽²⁾	39,875	16,186	—	56,061
Debt securities issued by U.S., state and local governments ⁽³⁾	—	16,328	—	16,328
Cash and cash equivalents ⁽⁴⁾	10,019	—	—	10,019
Mortgage-backed securities ⁽⁵⁾	—	3,517	—	3,517
Partnerships ⁽⁶⁾	—	—	3,585	3,585
Fixed annuity contracts ⁽⁷⁾	—	—	1,429	1,429
Total	\$236,479	\$36,031	\$5,014	\$277,524

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (1) Comprised of common stocks in various industries. The Pension Plan fund manager may shift investments from value to growth strategies or vice-versa, from small cap to large cap stocks or vice-versa, in order to meet the Pension Plan's investment objectives, which are to provide for a reasonable amount of long-term growth of capital without undue exposure to volatility, and protect the assets from erosion of purchasing power.
- (2) Comprised of investment grade securities in various industries.
- (3) Comprised of investment grade securities that are backed by the U.S., state or local governments.
- (4) Comprised of investment grade short-term investment funds.
- (5) Comprised of investment grade securities in which approximately \$4.4 million and \$2.0 million is backed by the U.S. government for the years ended December 31, 2011 and December 31, 2010, respectively, and the remainder by commercial real estate.
- (6) Comprised of partnerships that invest in various U.S. industries.
- (7) Comprised of fixed annuity contracts purchased at market value when plan participants retire.

The Pension Plan assets recorded at fair value are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the marketplace used to measure fair value as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets that the pension plan trustees have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active or inactive markets, and inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable.

The table below reconciles the Level 3 partnership assets within the fair value hierarchy:

(\$ in thousands)	Amount
Fair value of Level 3 partnership assets at January 1, 2010	\$ 2,784
Capital contributions	493
Net ordinary loss attributable to partnership assets	(88)
Realized and unrealized gain	854
Capital distributions	(458)
Fair value of Level 3 partnership assets at December 31, 2010	3,585
Capital contributions	548
Net ordinary loss attributable to partnership assets	(13)
Realized and unrealized gain	1,206
Capital distributions	(1,740)
Fair value of Level 3 partnership assets at December 31, 2011	\$ 3,586

The partnership fund manager uses a market approach in estimating the fair value of the plan's Level 3 asset. The market approach estimates the fair value by first, determining the entity's earnings before interest, taxes, depreciation and amortization and then multiplying that value by an estimated multiple. When establishing an appropriate multiple, the fund manager considers recent comparable private company transactions and multiples paid. The entity's net debt is then subtracted from the calculated amount to arrive at an estimated fair value for the entity. The fund manager's goal is to provide a conservative estimate of the fair value of such assets and to utilize conservative estimates of multiples used in establishing such fair values.

The fixed annuity contracts were purchased at market value when plan participants retire in order to provide these participants with the pension benefits under the rules of the pension plan. Once purchased, these annuities have no tradable value. Fair value has instead been assessed as the present value, using certain actuarial assumptions, of the stream of expected payments. Accordingly, these fixed annuities are classified as Level 3 under the fair value hierarchy.

The table below reconciles the Level 3 fixed annuity contracts within the fair value hierarchy:

(\$ in thousands)	Amount
Fair value of Level 3 fixed annuity contracts at January 1, 2010	\$ 904
Purchases	508
Net gain	17
Fair value of Level 3 fixed annuity contracts at December 31, 2010	1,429
Purchases	196
Benefits paid	(104)
Net gain	17
Fair value of Level 3 fixed annuity contracts at December 31, 2011	\$1,538

The expected contributions to be made by CTS to the Pension Plans and the other postretirement benefit plan during 2012 are \$5.3 million and \$0.4 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(\$ in thousands)	Pension Plans	Other Postretirement Benefit Plan
2012	\$18,109	\$ 355
2013	16,382	364
2014	16,973	366
2015	16,629	365
2016	17,702	362
Thereafter	89,962	1,707

Defined Contribution Plans

CTS sponsors a 401(k) plan that covers substantially all of its U.S. employees. Contributions and costs are generally determined as a percentage of the covered employee's annual salary. Amounts expensed for the 401(k) plan and the other plans totaled \$4.5 million in 2011, \$3.5 million in 2010, and \$2.6 million in 2009.

NOTE I — Equity-Based Compensation

At December 31, 2011, CTS had five equity-based compensation plans: the 1996 Stock Option Plan ("1996 Plan"), the 2001 Stock Option Plan ("2001 Plan"), the Nonemployee Directors' Stock Retirement Plan ("Directors' Plan"), the 2004 Omnibus Long-Term Incentive Plan ("2004 Plan"), and the 2009 Omnibus Equity and Performance Incentive Plan ("2009 Plan"). All of these plans, except the Directors' Plan, were approved by shareholders. As of December 31, 2009, additional grants can only be made under the 2004 and 2009 Plans. CTS believes that equity-based awards align the interest of employees with those of its shareholders.

The 2009 Plan, and previously the 1996 Plan, 2001 Plan and 2004 Plan, provide 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 2009 Plan and the 2004 Plan allow 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 Consolidated Statements of Earnings/(Loss) for the years ending December 31, 2011, 2010, and 2009 relating to equity-based compensation plans:

(\$ in thousands)	Year ended December 31		
	2011	2010	2009
Stock options	\$ —	\$ 3	\$ 36
Restricted stock units	3,746	4,032	3,519
Total	\$3,746	\$4,035	\$3,555

The total tax benefit related to the equity-based compensation plans recognized in income is approximately \$1.5 million for the year ended December 31, 2011 and \$1.6 and \$1.4 million for the years ended December 31, 2010 and 2009, respectively.

The following table summarizes the plan status as of December 31, 2011:

	2009 Plan	2004 Plan	2001 Plan	1996 Plan
Awards originally available	3,400,000	6,500,000	2,000,000	1,200,000
Stock options outstanding	—	257,200	396,000	74,850
Restricted stock units outstanding	570,784	130,665	—	—
Options exercisable	—	257,200	396,000	74,850
Awards available for grant	2,484,314	268,500	—	—

Stock Options

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

The Company estimated the fair value of the stock option on the grant date using the Black-Scholes option-pricing model and assumptions for expected price volatility, option term, risk-free interest rate, and dividend yield. Expected price volatilities were based on historical volatilities of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Company's stock. The expected option term is derived from historical data on exercise behavior. The dividend yield was based on historical dividend payments. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of the status of stock options as of December 31, 2011, and changes during the year then ended, is presented below:

(\$ in thousands except per share amounts)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	1,093,063	\$12.61		
Exercised	(58,263)	\$ 7.91		
Expired	(305,750)	\$19.14		
Outstanding at December 31, 2011	728,050	\$10.24	1.9 years	\$281
Exercisable at December 31, 2011	728,050	\$10.24	1.9 years	\$281

The total intrinsic value of stock options exercised during the year ended December 31, 2011 was \$0.2 million. The total intrinsic value of stock options exercised during the year ended December 31, 2010 was \$0.03 million. No options were exercised during the year ended December 31, 2009. No stock options were granted during the years ended December 31, 2011, 2010 or 2009.

The total fair value of stock options vested during the years ended December 31, 2010, and 2009 was approximately \$0.1 million, and \$0.3 million, respectively. All stock options were vested at December 31, 2010. CTS recognized expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The following table summarizes information about stock options outstanding at December 31, 2011:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding at 12/31/11	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/11	Weighted-Average Exercise Price
\$ 7.70 - 11.11	615,250	1.73	\$ 9.53	615,250	\$ 9.53
13.68 - 16.24	112,800	3.50	14.15	112,800	14.15

Service-Based Restricted Stock Units

Service-based restricted stock units ("RSUs") entitle the holder to receive one share of common stock for each unit when the unit vests. RSUs are issued to officers and key employees and non-employee directors as compensation. Generally, the RSUs vest over a three- to five-year period.

RSUs granted to non-employee directors vest one month after granted. Upon vesting, the non-employee directors elect to either receive the stock associated with the RSU immediately, or defer receipt of the stock until their retirement from the Board of Directors. The fair value of the RSUs is equivalent to the trading value of the Company's stock on the grant date.

A summary of RSU activity as of December 31, 2011, and changes during the year then ended, is presented below:

(\$ in thousands except per share amounts)	Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	807,601	\$ 8.39		
Granted	302,300	11.13		
Converted	(300,138)	8.56		
Forfeited	(108,314)	9.38		
Outstanding at December 31, 2011	701,449	\$ 9.35	7.9 years	\$6,453
Convertible at December 31, 2011	184,055	\$ 9.66	19.5 years	\$1,693

The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2011, 2010, and 2009 was \$11.13, \$8.10, and \$6.42, respectively. The total intrinsic value of RSUs converted during the years ended December 31, 2011 and 2010 was \$3.1 million, respectively. The total intrinsic value of RSUs converted during the year ended December 31, 2009 was \$1.5 million.

A summary of the nonvested RSUs as of December 31, 2011, and changes during the year then ended, is presented below:

	RSUs	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2011	664,146	\$ 8.20
Granted	302,300	11.13
Vested	(340,738)	8.84
Forfeited	(108,314)	9.38
Nonvested at December 31, 2011	517,394	9.24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The total fair value of RSUs vested during the years ended December 31, 2011 and 2010 was approximately \$3.0 million and \$2.8 million, respectively. CTS recorded compensation expense of approximately \$2.4 million, \$2.8 million and \$2.6 million related to service-based restricted stock units during the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, there was \$1.7 million of unrecognized compensation cost related to RSUs. That cost is expected to be recognized over a weighted-average period of 1.3 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Performance-Based Restricted Stock Units

On February 6, 2007, CTS granted performance-based RSU awards for certain executives. Executives received a total of 17,100 units based on achievement of year-over-year sales growth and free cash flow performance goals for fiscal year 2007. These units cliff vested and converted one-for-one to CTS common stock on December 31, 2010.

On February 2, 2010, CTS granted performance-based RSU awards for certain executives. Vesting may occur in the range from zero percent to 200% of the target amount of 78,000 units in 2012 subject to certification of the 2011 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of sales growth targets.

On February 3, 2011, CTS granted performance-based RSU awards for certain executives. Vesting may occur in the range from zero percent to 200% of the target amount of 53,200 units in 2013 subject to certification of the 2012 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of sales growth targets.

CTS recorded compensation expense of approximately \$391,000, \$357,000 and \$101,000 related to performance-based RSUs during the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011 there was \$337,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period of one year.

Market-Based Restricted Stock Units

On July 2, 2007, CTS granted a market-based RSU award for an executive officer. An aggregate of 25,000 units may be earned in performance years ending in the following three consecutive years on the anniversary of the award date. Vesting may occur in the range from zero percent to 150% of the target award on the end date of each performance period and is tied exclusively to CTS total stockholder return relative to 32 enumerated peer group companies' total stockholder return rates. The vesting rate will be determined using a matrix based on a percentile ranking of CTS total stockholder return with peer group total shareholder return over a three-year period. During the year ended December 31, 2010, 12,500 units was earned and awarded to the executive officer.

On February 4, 2009, CTS granted market-based RSU awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 128,000 units in 2011. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies' stockholder return rates. No awards were vested as the vesting criterion was not met.

On February 2, 2010, CTS granted market-based RSU awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 117,000 units in 2012. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies' stockholder return rates.

On February 3, 2011, CTS granted market-based RSU awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 79,800 units in 2013. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies' stockholder return rates.

CTS recorded compensation expense of approximately \$952,000, \$852,000 and \$831,000 related to market-based RSUs during the years ended December 31, 2011, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

As of December 31, 2011 there was approximately \$591,000 of unrecognized compensation cost related to market-based RSUs. That cost is expected to be recognized over a weighted average period of 1 year.

Stock Retirement Plan

The Directors' Plan provided for a portion of the total compensation payable to nonemployee directors to be deferred and paid in CTS stock. The Directors' Plan was frozen effective December 1, 2004. All future grants will be from the 2009 Plan.

NOTE J — Income Taxes

Earnings/(loss) before income taxes consist of the following for the years ended December 31:

(\$ in thousands)	2011	2010	2009
Domestic	\$ 3,559	\$(1,742)	\$(35,083)
Non-U.S.	22,778	29,768	14,669
Total	\$26,337	\$28,026	\$(20,414)

Significant components of income tax provision/(benefit) are as follows for the years ended December 31:

(\$ in thousands)	2011	2010	2009
Current:			
Federal	\$ 247	\$ (367)	\$ 343
State	385	307	218
Non-U.S.	3,572	3,471	7,088
Total Current	4,204	3,411	7,649
Deferred:			
Federal	(119)	(266)	3,801
State	(558)	530	570
Non-U.S.	1,843	2,313	1,616
Total Deferred	1,166	2,577	5,987
Total provision for Income Taxes	\$ 5,370	\$ 5,988	\$ 13,636

Significant components of the CTS' deferred tax assets and liabilities at December 31 are:

(\$ in thousands)	2011	2010
Postretirement benefits	\$ 2,093	\$ 2,109
Inventory reserves	2,446	1,991
Loss carryforwards	52,588	56,199
Credit carryforwards	13,700	12,680
Nondeductible accruals	6,787	6,545
Research expenditures	23,702	20,245
Prepaid charges	4,431	3,576
Other	6,632	6,974
Gross deferred tax assets	112,379	110,319
Pensions	(1,558)	15,568
Depreciation	9,948	7,529
Unrealized foreign exchange gain	1,625	1,760
Other	993	874
Gross deferred tax liabilities	11,008	25,731
Net deferred tax assets	101,371	84,588
Deferred tax asset valuation allowance	(14,453)	(13,908)
Total net deferred tax assets	\$ 86,918	\$ 70,680

Current deferred tax assets of \$14.7 million and \$12.1 million are included as current assets in the Company's consolidated balance sheets at December 31, 2011 and December 31, 2010, respectively. Long-term deferred tax assets of \$76.2 million and \$60.0 million are included as other assets in the Company's consolidated balance sheets at December 31, 2011 and December 31, 2010, respectively.

Current deferred tax liability of \$0.4 million is included as a component of "Other accrued liabilities" on the Company's consolidated balance sheets at December 31, 2011. There was no current deferred tax liability at December 31, 2010. Long-term deferred tax liability of \$3.6 million and \$1.4 million are included as a component of "Other long-term obligations" on CTS' consolidated balance sheets at December 31, 2011 and December 31, 2010, respectively. The long-term deferred tax assets and long-term deferred tax liabilities were not netted since these items relate to different tax jurisdictions.

At the end of each annual reporting period, the Company makes an assessment of the ultimate realizability of its net deferred tax assets, including deferred tax assets associated with accumulated net operating losses in the various jurisdictions in which it operates. In assessing the ultimate realizability of its net deferred tax assets, the Company considers its past performance, available tax strategies, and expected future taxable income during the tax loss and credit carryforward periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Generally, the Company assesses that it is more likely than not its net deferred tax assets will be realized during the available carryforward periods. The Company has determined, however, that a valuation allowance of \$14.5 million should be provided for certain deferred tax assets. As of December 31, 2011, the \$14.5 million valuation allowance includes \$6.9 million for state net operating loss and credit carryforwards, \$5.5 million in foreign tax credit carryforwards, and \$2.1 million related to foreign net operating losses. The \$0.6 million net increase in the valuation allowance was primarily due to adjustments related to the increase in state net operating loss and credit carryforwards.

The following table reconciles taxes at the United States statutory rate to the effective income tax rate for the years ended December 31:

	2011	2010	2009
Taxes at the U.S. statutory rate	35.00%	35.00%	35.00%
State income taxes, net of federal income tax benefit	(0.43)%	1.94%	(2.51)%
Non-U.S. income taxed at rates different than the U.S. statutory rate	(9.22)%	(3.60)%	5.7%
Benefit of scheduled tax credits	(2.05)%	(1.02)%	0.86%
Goodwill impairment	—%	—%	(55.96)%
Cash repatriation	—%	—%	(44.47)%
Non-U.S. adjustments to valuation allowances	(0.48)%	(12.31)%	(8.14)%
Other	(2.43)%	1.36%	2.73%
Effective income tax rate	20.39%	21.37%	(66.79)%

CTS' overall tax rate reflects tax holidays that CTS' business operations continue to qualify for in various countries. As a result, certain earnings of CTS are subject to tax at reduced rates for a specified period of time. These tax holidays, unless extended, are scheduled to begin expiring during 2017.

At December 31, 2011, no provision had been made for U.S. federal and state income taxes on approximately \$190 million of foreign earnings, which are expected to be permanently reinvested outside of the United States. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (with a possible adjustment for foreign tax credits),

state income taxes, and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. tax liability is not practical because of the complexities associated with the related calculation.

No valuation allowance was recorded in 2011 against the U.S. federal net deferred tax assets including the U.S. federal net operating loss carryforward asset of \$39 million expiring in 2021 through 2024. The Company assessed the future realization of these deferred tax assets utilizing taxable income projections for years 2012 through 2020. Those projections applied taxable income estimates consistent with historical earnings patterns of its traditional automotive and electronic component product lines and a return to levels of profitability in its communication component product line consistent with management and independent consensus views of the moderate recovery expected in the markets served by CTS. Management believes that, based upon the historical operating performance of its business units and the successful cost reduction efforts, the Company more likely than not, will realize the benefits of its U.S. net deferred tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CTS recognizes the financial statement benefit of a tax position based on its technical merits only after determining that the position would be sustained upon examination, including resolution of any related appeals or litigation. A tax position that meets the "more likely than not" threshold is then measured to determine the amount of benefit recognized in the financial statements. The Company or one of its subsidiaries files income tax returns in the United States federal, various state, and foreign jurisdictions. The Company's open tax years are subject to examination from 2006 through 2010 for all U.S. jurisdictions. The open years for the international tax returns range from 2004 through 2010 based on local statutes. U.S. tax authorities also have the ability to review prior tax years to the extent of net operating losses and tax credit carryforwards. Changes may be applied to any open tax years. CTS has approximately \$5.3 million of unrecognized tax benefits, which if recognized, would impact the effective tax rate. The Company does not anticipate any significant changes in its unrecognized tax benefits within the next 12 months as a result of examinations or statute lapses. A reconciliation of the beginning and ending unrecognized tax benefits is provided below:

(\$ in thousands)	2011	2010
Balance at January 1	\$4,586	\$4,014
Increase related to current year tax positions	88	63
Increase related to prior year tax positions	838	724
Decrease as a result of lapse of statute of limitations	(65)	(184)
Decrease related to settlements with taxing authorities	(168)	(31)
Balance at December 31	\$5,279	\$4,586

CTS' continuing practice is to recognize interest and/or penalties related to income tax matters as income tax expense. However, at the time of adoption and at the year ending December 31, 2011, there were no significant amounts accrued for interest and/or penalties related to uncertain income tax positions.

NOTE K — Treasury Stock

Common stock held in treasury totaled 20,724,106 shares with a cost of \$300.6 million at December 31, 2011 and

20,320,759 shares with a cost of \$297.0 million at December 31, 2010. Approximately 6.9 million shares are available for future issuances.

In May 2008, CTS' Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market at a maximum price of \$13 per share. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2011, 403,347 shares were repurchased at a cost of approximately \$3.6 million or \$8.86 per share, under this program. No shares were repurchased under this program in 2010.

NOTE L — Segments

CTS reportable segments are grouped by entities that exhibit similar economic characteristics. The segment's reporting results are regularly reviewed by CTS' chief operating decision maker to make decisions about resources to be allocated to these segments and to evaluate the segment's performance. CTS has two reportable segments: 1) Components and Sensors and 2) Electronics Manufacturing Services ("EMS").

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

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

The accounting policies of the reportable segments are the same as those described in the summary of significant

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

accounting policies. Management evaluates performance based upon segment operating earnings before interest expense, interest income, non-operating income/(expense), and income tax expense.

In the third quarter of 2011, CTS expanded the presentation of segment operating earnings to currently include both segment operating earnings before corporate and shared services charges and segment operating earnings after corporate and shared services charges as shown in the table below. These charges primarily include Company headquarters' support services such as information technology, accounting, treasury, legal and other support services which are not part of any business segment. Prior to this change, these charges were included within these operating segments. This presentation reflects the current fact that CTS' chief operating decision-maker excludes these charges from the review of the results of the operating segments for purposes of measuring segment profitability and allocating resources. Results from prior periods here are presented on the same basis.

Summarized financial information concerning CTS' reportable segments for the years ended December 31, 2011, 2010, and 2009 is shown in the following table:

(\$ in thousands)	Components and Sensors	EMS	Total
2011			
Net sales to external customers	\$279,857	308,649	588,506
Segment operating earnings before corporate and shared services charges	\$ 36,595	\$ 13,682	\$ 50,277
Corporate and shared services charges	(15,239)	(6,660)	(21,899)
Segment operating earnings⁽¹⁾	\$ 21,356	\$ 7,022	\$ 28,378
Total assets	\$329,624	\$151,191	\$480,815
Depreciation and amortization	12,077	5,471	17,548
Capital expenditures	9,919	5,655	15,574
Capital expenditure to replace property damaged in casualties	—	4,733	4,733
2010			
Net sales to external customers	\$282,860	269,781	552,641
Segment operating earnings before corporate and shared services charges	\$ 48,014	5,929	53,943
Corporate and shared services charges	(16,661)	(7,742)	(24,403)
Segment operating (loss)/earnings	\$ 31,353	(1,813)	29,540
Total assets	\$335,719	146,865	482,584
Depreciation and amortization	\$ 11,633	\$ 5,932	\$ 17,565
Capital expenditures	\$ 11,091	\$ 2,180	\$ 13,271
2009			
Net sales to external customers	\$213,184	285,798	498,982
Segment operating earnings before corporate and shared services charges	\$ 24,314	15,319	39,633
Corporate and shared services charges	(14,019)	(8,047)	(22,066)
Segment operating earnings	\$ 10,295	7,272	17,567
Total assets	\$295,132	112,525	407,657
Depreciation and amortization	\$ 12,744	\$ 6,787	\$ 19,531
Capital expenditures	\$ 5,081	\$ 1,456	\$ 6,537

(1) EMS segment's operating earnings of \$7,022 include \$6,067 of insurance recovery for property damage related to the fire at CTS Scotland's manufacturing facility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Reconciling information between reportable segments' operating earnings and CTS' consolidated earnings before income taxes is shown in the following table:

(\$ in thousands)	Year ended December 31,		
	2011	2010	2009
Total segment operating earnings	\$28,378	\$29,540	\$ 17,567
Restructuring and restructuring-related charges — Components and Sensors	(2,649)	(1,010)	(2,096)
Restructuring and restructuring-related charges — EMS	(489)	(687)	(147)
Goodwill impairment — Components and Sensors	—	—	(2,373)
Goodwill impairment — EMS	—	—	(30,780)
Interest expense	(2,119)	(1,074)	(1,878)
Interest income	1,257	385	156
Other income/(expense)	1,959	872	(863)
Earnings before income taxes	\$26,337	\$28,026	\$(20,414)

Financial information relating to CTS' operations by geographic area was as follows:

(\$ in thousands)	Year ended December 31,		
	2011	2010	2009
Net Sales			
United States	\$367,971	\$310,569	\$274,398
Singapore	15,195	19,365	51,863
United Kingdom	43,688	38,707	32,268
China	79,663	86,487	67,994
Canada	34,094	45,097	31,117
Czech Republic	26,014	28,743	28,193
Other non-U.S.	21,881	23,673	13,149
Consolidated net sales	\$588,506	\$552,641	\$498,982

Sales are attributed to countries based upon the origin of the sale.

(\$ in thousands)	Year ended December 31,		
	2011	2010	2009
Long-Lived Assets			
United States	\$30,363	\$28,838	\$26,903
China	34,904	34,832	32,441
United Kingdom	7,153	5,028	6,250
Singapore	3,877	3,630	4,523
Canada	605	948	1,914
Taiwan	2,105	2,339	5,588
Thailand	3,625	2,219	3,038
Switzerland	1,721	—	—
Other non-U.S.	507	379	463
Consolidated long-lived assets	\$84,860	\$78,213	\$81,120

NOTE M — Contingencies

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

CTS manufactures accelerator pedals for a number of automobile manufacturers, including subsidiaries of Toyota Motor Corporation ("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 the Company being named as a co-defendant with Toyota in certain litigation. In February 2010, CTS entered into an agreement with Toyota whereby Toyota agreed that it will

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

indemnify, defend, and hold the Company harmless from, and the parties will cooperate in the defense of, 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. The limited exceptions to indemnification restrict CTS' share of any liability to amounts collectable from its insurers.

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

Scotland EMS Manufacturing Facility Fire

During the second quarter of 2011, a fire occurred at the Company's Scotland EMS manufacturing facility. The fire damaged approximately \$1.6 million of inventory and \$0.2 million of machinery and equipment at net book value. Property insurance coverage with a \$100,000 deductible covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. Business interruption insurance covered the lost sales impact and related fixed costs. Consequently, as of December 31, 2011, CTS wrote-off approximately \$0.2 million of net book value of machinery and equipment and \$1.6 million of inventory; and recorded \$3.1 million of other recoverable costs and \$0.5 million of recoverable building restoration costs as a receivable which was substantially settled in 2011. The total fire-related other receivable was approximately \$0.1 million as of December 31, 2011 and was included in Other Current Assets in CTS' Consolidated Balance Sheets.

As a result of the insurance coverage, CTS recovered approximately \$11.7 million from the Company's insurance carriers. Out of the \$11.7 million recovered, approximately \$3.1 million was for business interruption and the remaining \$8.6 million was for the replacement of damaged property. CTS recorded a recovery of approximately \$2.7 million for business interruption and a recovery of \$6.1 million for property damage in CTS' Consolidated Statements of Earnings/(Loss) for the year ended December 31, 2011.

Thailand EMS Manufacturing Facility Flood

During the fourth quarter of 2011, CTS' Thailand EMS manufacturing facility was flooded. Based on preliminary estimates, the flood damaged approximately \$0.5 million of inventory and \$0.5 million of fixed assets at net book value. The Company also incurred approximately \$2.5 million of fixed costs at this facility. Local property insurance coverage covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. CTS also has business interruption insurance under the local policy that covered the lost sales impact and fixed costs. The maximum amount covered under the local insurance policy is approximately \$2.4 million. CTS also has a secondary global insurance policy that will cover costs not covered by the local policy for up to approximately \$25 million with a deductible of \$250,000.

The insurance carrier for the local policy has indicated that the company will reimburse the Company for the maximum amount of approximately \$2.4 million. Consequently, the Company wrote off \$0.5 million of inventory and \$0.5 million of fixed assets to an insurance receivable and recorded a business interruption receivable of \$1.4 million for fixed costs incurred. The remaining \$1.1 million of fixed costs was recorded as a charge to cost of goods sold in the Consolidated Statements of Earnings/(Loss) for the year ended December 31, 2011.

NOTE N — Leases

CTS incurred rent expense of approximately \$7.0 in 2011, \$6.9 million in 2010, and \$7.5 million in 2009. The future minimum lease payments under the Company's lease agreements are \$6.4 million in 2012, \$5.4 million in 2013, \$3.7 million in 2014, \$2.8 million in 2015, \$1.5 million in 2016, and \$4.0 million thereafter. Future sub-lease income is \$0.3 million in 2012 and \$0.1 million in 2013. Some of CTS' operating leases include renewal options and escalation clauses.

NOTE O — Restructuring Charges

In March 2009, CTS initiated certain restructuring actions to reorganize certain operations to further improve its cost structure. These actions resulted in the elimination of approximately 268 positions and were completed in the first quarter of 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The following table displays the planned restructuring and restructuring-related charges associated with the realignment, as well as a summary of the actual costs incurred through December 31, 2009:

(\$ in millions)	March 2009 Plan	Planned Costs	Actual Incurred Through December 31, 2009
Workforce reduction		\$1.9	\$2.1
Asset impairments		—	0.1
Total restructuring charge		\$1.9	\$2.2

Of the restructuring and impairment costs incurred, \$2.1 million relates to the Components and Sensors segment and \$0.1 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Consolidated Statements of Earnings/(Loss) and the restructuring-related costs are included in cost of goods sold.

The following table displays the restructuring reserve activity related to the realignment for the period ended December 31, 2009:

(\$ in millions)	March 2009 Plan
Restructuring liability at January 1, 2009	\$ —
Restructuring and restructuring-related charges, excluding asset impairments and write-offs	2.1
Cost paid	(2.1)
Restructuring liability at December 31, 2009	\$ —

In December 2010, CTS implemented a restructuring plan to realign and consolidate certain operations for the purpose of improving its cost structure. The implementation of this plan resulted in the elimination of approximately 80 positions and the write-off of certain inventory and long-lived assets during the fourth quarter of 2010. The implementation was substantially completed by the end of December 2010.

The following table displays the planned restructuring and restructuring-related charges associated with the restructuring plan as well as a summary of the actual costs incurred through December 31, 2010:

(\$ in millions)	December 2010 Plan	Planned Costs	Actual Incurred Through December 31, 2010
Workforce reduction		\$1.3	\$1.3
Asset impairments		0.3	0.1
Restructuring charge		1.6	1.4
Other costs		0.3	0.3
Restructuring-related costs		0.3	0.3
Total restructuring and restructuring-related costs		\$1.9	\$1.7

Of the \$1.9 million planned restructuring costs, \$1.1 million relates to the Components and Sensors segment and \$0.8 million relates to EMS. Of the restructuring and restructuring-related costs incurred, \$1.0 million relates to the Components and Sensors segment and \$0.7 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Consolidated Statements of Earnings/(Loss) and the restructuring-related costs are included in cost of goods sold.

The following table displays the restructuring reserve activity related to the implementation of this restructuring plan:

(\$ in millions)	December 2010 Plan
Restructuring liability at January 1, 2010	\$ —
Restructuring and restructuring-related charges, excluding asset impairments and write-offs	1.3
Cost paid	(1.3)
Restructuring liability at December 31, 2010	\$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

During April 2011, CTS initiated restructuring actions to reorganize certain operations to further improve its cost structure. These actions resulted in the elimination of approximately 30 positions. The following table displays the planned restructuring and restructuring-related charges with the realignment, as well as a summary of the actual costs incurred through December 31, 2011:

(\$ in millions)	April 2011 Plan	Planned Costs	Actual incurred through December 31, 2011
Workforce reduction		\$0.8	\$0.7
Total restructuring charge		\$0.8	\$0.7

Of the restructuring charges incurred, \$0.5 million relates to the Components and Sensors segment and \$0.2 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Consolidated Statements of Earnings/(Loss).

The following table displays the restructuring reserve activity related to the realignment for the period ended December 31, 2011:

(\$ in millions)	April 2011 Plan
Restructuring liability at January 1, 2011	\$ —
Restructuring charges	0.7
Cost paid	(0.7)
Restructuring liability at December 31, 2011	\$ —

In October 2011, CTS announced plans to realign certain manufacturing operations and eliminate approximately 100 net positions during the fourth quarter of 2011. As of December 31, 2011, the realignment plans were substantially complete.

The following table displays the planned restructuring and restructuring-related charges associated with the realignment, as well as a summary of the actual costs incurred through December 31, 2011:

(\$ in millions)	October 2011 Plan	Planned Costs	Actual Incurred Through December 31, 2011
Workforce reduction		\$2.2	\$2.2
Restructuring charge		2.2	2.2
Equipment relocation		0.2	0.2
Restructuring-related costs		0.2	0.2
Total restructuring and restructuring-related costs		\$2.4	\$2.4

Of the restructuring and restructuring-related costs incurred, \$2.1 million relates to the Components and Sensors segment and \$0.3 million relates to the EMS segment. Restructuring charges are reported on a separate line on the Consolidated Statements of Earnings/(Loss) and the restructuring-related costs are included in cost of goods sold. Restructuring actions were substantially completed at December 31, 2011.

The following table displays the restructuring reserve activity related to the realignment for the period ended December 31, 2011:

(\$ in millions)	October 2011 Plan
Restructuring liability at January 1, 2011	\$ —
Restructuring and restructuring-related charges	2.2
Cost paid	(1.0)
Restructuring liability at December 31, 2011	\$ 1.2

NOTE P — Subsequent Events

As discussed in Note B, "Acquisitions," CTS acquired 100% of the common stock of Valpey-Fisher, a publicly held company located in Hopkinton, Massachusetts in January 2012 for cash of approximately \$18.3 million. Valpey-Fisher is a recognized technology leader in the design and manufacture of precision frequency crystal oscillators. This acquisition will expand CTS' technology, and bring strong engineering capabilities and management leadership to support the Company's strategic initiatives in CTS' Component and Sensors' segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

On January 10, 2012, CTS entered into an amendment to its unsecured revolving credit agreement. This amendment provided for an increase in CTS' borrowing capacity and is further discussed in Note G, "Debt."

NOTE Q — Quarterly Financial Data

Quarterly Results of Operations (Unaudited)

(\$ in thousands)	Net Sales	Gross Margins	Operating Earnings	Net Earnings	Earnings per Share - Basic	Earnings per Share - Diluted
2011						
4th quarter	\$143,999	\$25,838	\$7,200	\$5,856	\$0.17	\$0.16
3rd quarter	146,070	27,460	7,754	5,863	0.17	0.17
2nd quarter	146,919	27,391	4,527	4,132	0.12	0.12
1st quarter	151,518	29,160	5,759	5,116	0.15	0.15
2010						
4th quarter	\$145,025	\$29,122	\$5,984	\$4,800	\$0.15	\$0.13
3rd quarter	139,362	29,969	7,771	6,915	0.20	0.20
2nd quarter	138,851	30,340	7,741	5,892	0.17	0.17
1st quarter	129,403	30,479	6,347	4,431	0.13	0.13

CTS CORPORATION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged/ (Credit) to Expense	Charged to Other Accounts		
(In thousands of dollars)					
Year ended December 31, 2011					
Allowance for doubtful accounts	\$1,269	\$ (52)	\$—	\$ (117)	\$1,100
Inventory reserve provision	\$6,565	\$4,311	\$—	\$(3,030)	\$7,846
Year ended December 31, 2010:					
Allowance for doubtful accounts	\$2,119	\$ (733)	\$—	\$ (117)	\$1,269
Inventory reserve provision	\$6,951	\$2,661	\$—	\$(3,047)	\$6,565
Year ended December 31, 2009					
Allowance for doubtful accounts	\$2,165	\$ 222	\$—	\$ (268)	\$2,119
Inventory reserve provision	\$6,781	\$1,752	\$—	\$(1,582)	\$6,951

CTS CORPORATION AND SUBSIDIARIES

As of December 31, 2011

CTS Corporation (Registrant), an Indiana corporation

Subsidiary:	Jurisdiction
CTS Corporation	Delaware
CTS of Panama, S de R.L.	Republic of Panama
CTS Components Taiwan, Ltd.	Republic of China
CTS Electro de Matamoros, S.A. de C.V.	Republic of Mexico
CTS Japan, Inc.	Japan
CTS International B.V.	The Netherlands
CTS Overseas Holdings, B.V.	The Netherlands
CTS Czech Republic S.R.O.	Czech Republic
CTS Singapore Pte., Ltd.	Republic of Singapore
CTS (Tianjin) Electronics Company Ltd.	People's Republic of China
CTS (Zhongshan) Technology Co. Ltd.	People's Republic of China
CTS of Canada Holding Company	Province of Nova Scotia (Canada)
CTS of Canada G.P., Ltd.	Province of Ontario (Canada)
CTS of Canada L.P.	Province of Ontario (Canada)
CTS of Canada Co.	Province of Nova Scotia (Canada)
CTS Corporation U.K., Ltd.	Scotland
CTS Printex, Inc.	California
CTS Electronics Components, Inc.	Delaware
Dynamics Corporation of America	New York
CTS Electronic Components (California), Inc.	California
LTB Investment Corporation	Delaware
CTS Electronics Manufacturing Solutions, Inc.	Delaware
CTS Electronics Manufacturing Solutions (Moorpark), Inc.	California
CTS Electronics Manufacturing Solutions (Santa Clara), Inc.	California
CTS Electronics Manufacturing Solutions (Massachusetts), Inc.	Massachusetts
Technetics, Inc.	California
CTS Electronics Corporation (Thailand), Ltd.	Thailand
CTS Electronics Hong Kong Ltd.	Hong Kong Special Administrative Region of the People's Republic of China
CTS Europe GmbH	Germany
CTS Electronic Components S.A.	Switzerland
CTS India Private Limited	India
Tusonix, Inc.	Arizona
Technologia Mexicana S.A. de C.V.	Republic of Mexico
CTS Valpey Corporation (Acquired January 25, 2012)	Maryland

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 23, 2012, with respect to the consolidated financial statements, schedule, and internal control over financial reporting included in the Annual Report of CTS Corporation and subsidiaries on Form 10-K for the year ended December 31, 2011. We hereby consent to the incorporation by reference of said reports in the Registration Statements of CTS Corporation on Form S-3 (No. 333-72146, effective November 9, 2001) and on Forms S-8 (Nos. 333-159542, effective May 28, 2009, and 333-116287, effective June 8, 2004).

/s/ GRANT THORNTON LLP

Chicago, Illinois
February 23, 2012

CERTIFICATION

I, Vinod M. Khilnani, certify that:

1. I have reviewed this annual report on Form 10-K of CTS Corporation:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles; and
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2012 /s/ Vinod M. Khilnani
Vinod M. Khilnani
Chairman of the Board, President and Chief Executive Officer

CERTIFICATION

I, Thomas A. Kroll, certify that:

1. I have reviewed this annual report on Form 10-K of CTS Corporation:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles; and
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2012 /s/ Thomas A. Kroll
Thomas A. Kroll
Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of CTS Corporation (the Company) on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2012

/s/ Vinod M. Khilnani

Vinod M. Khilnani
Chairman of the
Board, President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to CTS Corporation and will be retained by CTS Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of CTS Corporation (the Company) on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2012

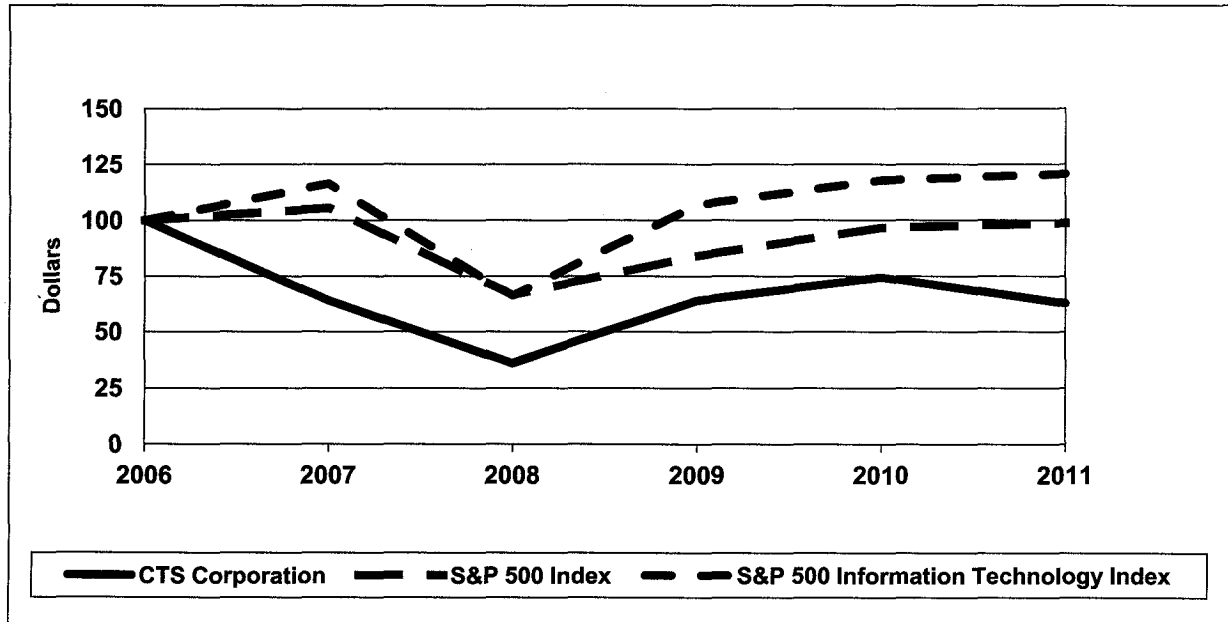
/s/ Thomas A. Kroll

Thomas A. Kroll
Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to CTS Corporation and will be retained by CTS Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

STOCK PERFORMANCE GRAPH
Comparison of Five-Year Cumulative Return

The following graph compares the cumulative total shareholder return on CTS Common stock with the Standard & Poor's 500 Stock Index and the Standard & Poor's 500 Information Technology Stock for the years 2006 through 2011. The graph assumes that \$100 was invested on December 31, 2006 in each of CTS common stock, the S&P 500 Stock Index and the S&P 500 Information Technology Stock Index.



Company / Index	Base Period 2006	INDEXED RETURNS Years Ending				
		2007	2008	2009	2010	2011
CTS Corporation	100	63.88	35.93	63.94	74.42	62.73
S&P 500 Index	100	105.49	66.46	84.05	96.71	98.76
S&P 500 Information Technology Index	100	116.31	66.13	106.95	117.85	120.69

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Shareholder Information

Annual Meeting of Shareholders

The 2012 annual meeting of shareholders is scheduled to be held on Wednesday, May 23, 2012, in Lisle, Illinois. Shareholders of record at the close of business on April 5, 2012, will receive a formal notice of the annual meeting and a proxy statement.

Form 10-K Annual Report

A copy of CTS Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders upon written request to the Corporate Secretary of the Company, or by visiting our website: www.ctscorp.com

Common Stock Listed (CTS)

New York Stock Exchange

CTS submitted a Section 12 (a) CEO Certification to the New York Stock Exchange in 2011 as required by New York Stock Exchange Corporate Governance Listing Standards. CTS filed the CEO/CFO certifications required under Section 302 of the Sarbanes-Oxley Act as an exhibit to its Annual Report on Form 10-K for the year ended December 31, 2011.

Investor Relations

Shareholders and members of the financial community may direct questions or requests to:
Mitchell J. Walorski
Director of Investor Relations
CTS Corporation
905 West Boulevard North
Elkhart, IN 46514
574-523-3800
E-mail:
shareholder.services@ctscorp.com

Transfer Agent and Registrar

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0874
800-468-9716

Corporate Headquarters

CTS Corporation
905 West Boulevard North
Elkhart, IN 46514
574-523-3800
FAX: 574-293-6146
www.ctscorp.com

2011 Board of Directors

Vinod M. Khilnani

Chairman of the Board, President and Chief Executive Officer,
CTS Corporation

Thomas G. Cody

CTS Lead Independent Director and Retired Vice Chairman,
Macy's, Inc.

Walter S. Catlow

Retired President, Ameritech Cellular Services and Retired Dean, College of Business, Concordia University, Chicago

Lawrence J. Ciancia

Partner,
Corporate Development International, Inc.

Patricia K. Collawn

President and Chief Executive Officer,
PNM Resources, Inc.

Roger R. Hemminghaus

Retired Chairman and Chief Executive Officer,
Ultramar Diamond Shamrock Corporation

Michael A. Henning

Retired Deputy Chairman,
Ernst & Young LLP

Gordon Hunter

Chairman, President and Chief Executive Officer,
Littelfuse, Inc.

Diana M. Murphy

Managing Director,
Rocksolid Holdings LLP

Robert A. Profusek

Partner,
Jones Day

Corporate Officers

Vinod M. Khilnani

Chairman of the Board, President and Chief Executive Officer

Thomas A. Kroll

Vice President and Chief Financial Officer

Dennis P. Thornton

Senior Vice President and General Manager
Electronics Manufacturing Solutions

Richard G. Cutter

Vice President Law and Business Affairs,
Corporate Secretary

Ashish Agrawal

Treasurer and Vice President
Corporate Development

2011 Committees of the Board

Compensation Committee

Patricia K. Collawn (Chairman)
Walter S. Catlow
Thomas G. Cody
Gordon Hunter

Nominating and Governance Committee

Michael A. Henning (Chairman)
Lawrence J. Ciancia
Patricia K. Collawn
Diana M. Murphy

Finance and Strategic Initiatives Committee

Robert A. Profusek (Chairman)
Thomas G. Cody
Roger R. Hemminghaus
Vinod M. Khilnani

Audit Committee

Lawrence J. Ciancia (Chairman)
Walter S. Catlow
Roger R. Hemminghaus
Michael A. Henning



Worldwide Manufacturing Facilities

Sensors and Actuators

Elkhart, Indiana
Toronto, Canada
Matamoros, Mexico
Glasgow, Scotland
Ostrava, Czech Republic
Kaohsiung, Taiwan, Republic of China
Zhongshan, People's Republic of China
Gurgaon, India

Electronic Components

Lisle, Illinois
Albuquerque, New Mexico
Hopkinton, Massachusetts
Tucson, Arizona
Nogales, Mexico
Tianjin, People's Republic of China
Singapore, Republic of Singapore
Brugg, Switzerland

Electronics Manufacturing Solutions

Moorpark, California
San Jose, California
Londonderry, New Hampshire
Glasgow, Scotland
Tianjin, People's Republic of China
Bangkok, Ayutthya, Thailand
Matamoros, Mexico

Electrocomponent Products

Kaohsiung, Taiwan, Republic of China
Zhongshan, People's Republic of China



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