# Simplify

# Focus

# Drive Profitable Growth

2013

Annual Report

# Letter to our fellow shareholders

Dear Shareholders:

2013 was a busy and dynamic year for CTS. We worked diligently to rationalize and prepare our future foundation and refine our strategic focus. Additionally, we carefully monitored and adapted to developing market trends and remained disciplined in prioritizing our core business, while better understanding our longer term growth strategies. Our primary goal is to remain a trusted and innovative partner to our customers. We are proud of our 118-year history of being known for our innovative solutions, reliable products and reputation for doing the right thing for our customers and stakeholders.

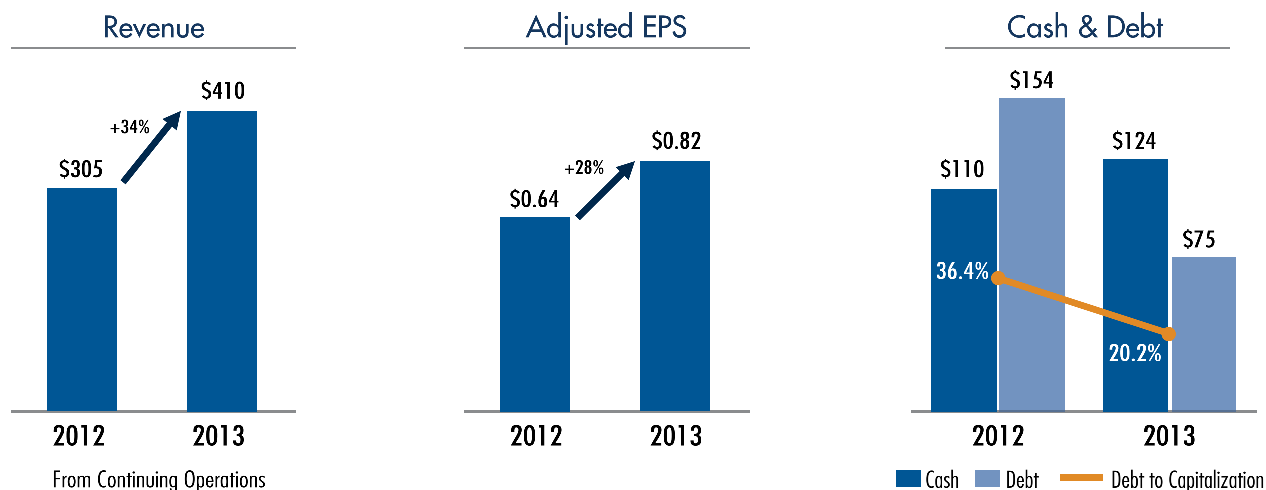
Our redefined strategy to simplify the business model, focus and drive profitable growth is on schedule and resulting in improved profitability. The simplification phase of the strategic plan reduced our global footprint, while improving our competitive position for our future success. As part of increased focus, we refined our product portfolio, increased emphasis on our sales and marketing presence globally, and prioritized our R&D investments. As we reposition and adapt our business, products and investments to be better situated for global growth, we are establishing an appropriate capital structure for future business needs. As a result of our efforts and strategy, we have a stronger balance sheet which provides a solid foundation and appropriate flexibility to enable our company to prosper and grow in the years ahead.

Here are a few of our 2013 highlights:

- Divested our EMS business thereby directing greater focus to the core business and reducing risk
- Transformed our margin profile and profitability
- Strengthened our leadership
- Our share price increased from $10.63 at the end of 2012 to $19.91 at the end of 2013
- Increased our dividend by 14%
- Aligned our leadership principles, refined our core values and reinforced our uncompromising commitment to ethical behavior as the key to long-term growth and sustainability

As a shareholder you can be confident that we are strategically preparing for our future, optimizing our product portfolio and strengthening our focus on innovation to drive profitable growth. On behalf of our dedicated and committed employees and Board, we thank you for your continued confidence and support.

Kieran M. O'Sullivan
President & CEO



# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
# FORM 10-K

**(Mark One)**

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

**OR**

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

**Commission File Number: 1-4639**

# CTS CORPORATION
**(Exact name of registrant as specified in its charter)**

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

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common stock, without par value | 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 ☐ (Do not check if smaller reporting company) Smaller reporting company ☐

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

# TABLE OF CONTENTS


| ITEM | | PAGE |
|---|---|---|
| | **PART I** | |
| 1. | Business | 2 |
| 1A. | Risk Factors | 7 |
| 1B. | Unresolved Staff Comments | 15 |
| 2. | Properties | 15 |
| 3. | Legal Proceedings | 16 |
| 4. | Mine Safety Disclosures | 17 |
| | **PART II** | |
| 5. | Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities | 18 |
| 6. | Selected Financial Data | 19 |
| 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| 7A. | Quantitative and Qualitative Disclosures About Market Risk | 20 |
| 8. | Financial Statements and Supplementary Data | 21 |
| 9. | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 21 |
| 9A. | Controls and Procedures | 21 |
| 9B. | Other Information | 21 |
| | **PART III** | |
| 10. | Directors, Executive Officers and Corporate Governance | 22 |
| 11. | Executive Compensation | 22 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 22 |
| 13. | Certain Relationships and Related Transactions, and Director Independence | 22 |
| 14. | Principal Accountant Fees and Services | 22 |
| | **PART IV** | |
| 15. | Exhibits and Financial Statements Schedules | 23 |
| SIGNATURES | | 26 |

*Forward-Looking Statements*

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

# PART I

## Item 1. Business

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

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

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

## PRODUCTS BY MAJOR MARKETS

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

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

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

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

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

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

## MARKETING AND DISTRIBUTION

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

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

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

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

## RAW MATERIALS

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

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

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

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

## PATENTS, TRADEMARKS, AND LICENSES

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

## MAJOR CUSTOMERS

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

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

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

## ORDER BACKLOG

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

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

| **($ in millions)** | **January 26, 2014** | January 27, 2013 |
|---|---|---|
| Backlog | **$55.8** | $49.8 |

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

## COMPETITION

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

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

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

## NON-U.S. REVENUES

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

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

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

## EMPLOYEES

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

## ADDITIONAL INFORMATION

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

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

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

## EXECUTIVE OFFICERS OF THE COMPANY

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

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

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

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

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

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

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

## Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

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

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

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

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

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

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

## Item 3. Legal Proceedings

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

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

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

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 Unites States or Canada. All currently open lawsuits are subject to the indemnification agreement described above. Some of these lawsuits arise out of incidents involving models for which we do not manufacture the pedal, such as all Lexus models, the Toyota Prius, and the Toyota Tacoma, or for which we manufacture only a portion of the pedals, such as the Toyota Camry. Many of these lawsuits have been consolidated in federal multidistrict litigation in the United States District Court, Southern District of California, though some remain in various other courts.

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

### Item 4. Mine Safety Disclosures

**Not applicable.**

# PART II

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

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

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

**Per Share Data**
(Unaudited)

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

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

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

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

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

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

## Item 6. Selected Financial Data

### Five-Year Summary

(In thousands except per share data)

| | 2013 | % of Sales | 2012 | % of Sales | 2011 | % of Sales | 2010 | % of Sales | 2009 | % of Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| **Summary of Operations** | | | | | | | | | | |
| Net sales from continuing operations | **$ 409,461** | 100.0 | $ 304,481 | 100.0 | $ 279,857 | 100.0 | $ 282,860 | 100.0 | $ 213,184 | 100.0 |
| Cost of goods sold | **288,108** | 70.4 | 212,965 | 70.0 | 190,634 | 68.1 | 185,605 | 65.6 | 145,560 | 68.3 |
| Insurance recovery for business interruption | **—** | 0.0 | (637) | (0.2) | — | 0.0 | — | 0.0 | — | 0.0 |
| Selling, general and administrative expenses[1] | **64,987** | 15.9 | 60,953 | 20.0 | 52,446 | 18.7 | 53,068 | 18.8 | 48,562 | 22.8 |
| Research and development expenses | **23,222** | 5.7 | 20,918 | 6.9 | 19,990 | 7.2 | 18,313 | 6.5 | 14,154 | 6.6 |
| Amortization of intangible assets | **5,002** | 1.2 | 2,118 | 0.7 | 1,690 | 0.6 | 1,563 | 0.5 | 2,022 | 0.9 |
| Restructuring and goodwill impairment charges | **10,455** | 2.5 | 3,437 | 1.1 | 2,389 | 0.9 | 1,010 | 0.4 | 4,469 | 2.1 |
| Gain on sale-leaseback | **—** | 0.0 | (10,334) | (3.4) | — | 0.0 | — | 0.0 | — | 0.0 |
| Operating earnings/(loss) from continuing operations | **17,687** | 4.3 | 15,061 | 4.9 | 12,708 | 4.5 | 23,301 | 8.2 | (1,583) | (0.7) |
| Other income/(expense) — net | **376** | 0.1 | (617) | (0.2) | (392) | (0.1) | (1,410) | (0.5) | (2,593) | (1.2) |
| Earnings/(loss) before income taxes from continuing operations | **18,063** | 4.4 | 14,444 | 4.7 | 12,316 | 4.4 | 21,891 | 7.7 | (4,176) | (1.9) |
| Income tax expense/(benefit) from continuing operations | **16,066** | 3.9 | 952 | 0.3 | 1,053 | 0.4 | 4,207 | 1.5 | 10,851 | (5.1) |
| Earnings/(loss) from continuing operations | **1,997** | 0.5 | 13,492 | 4.4 | 11,263 | 4.0 | 17,684 | 6.2 | (15,027) | (7.0) |
| (Loss)/earnings from discontinued operations, net of tax | **(778)** | | 6,841 | | 9,704 | | 4,354 | | (19,023) | |
| Loss on sale of EMS operations, net of tax | **(5,148)** | | — | | — | | — | | — | |
| (Loss)/earnings from discontinued operations | **(5,926)** | | 6,841 | | 9,704 | | 4,354 | | (19,023) | |
| Net (loss)/earnings | **$ (3,929)** | | $ 20,333 | | $ 20,967 | | $ 22,038 | | $ (34,050) | |
| Retained earnings — beginning of Year | **367,800** | | 352,205 | | 335,524 | | 317,582 | | 355,694 | |
| Dividends declared | **(4,874)** | | (4,738) | | (4,286) | | (4,096) | | (4,062) | |
| Retained earnings — end of year | **$ 358,997** | | $ 367,800 | | $ 352,205 | | $ 335,524 | | $ 317,582 | |
| **Net earnings/(loss) per share:** | | | | | | | | | | |
| **Basic:** | | | | | | | | | | |
| **Continuing operations** | **$ 0.06** | | $ 0.40 | | $ 0.33 | | $ 0.52 | | $ (0.44) | |
| **Discontinued operations** | **(0.18)** | | 0.20 | | 0.28 | | 0.13 | | (0.57) | |
| **Net (loss)/earnings attributable to CTS Corporation** | **$ (0.12)** | | $ 0.60 | | $ 0.61 | | $ 0.65 | | $ (1.01) | |
| **Diluted:** | | | | | | | | | | |
| **Continuing operations** | **$ 0.06** | | $ 0.39 | | $ 0.32 | | $ 0.51 | | $ (0.44) | |
| **Discontinued operations** | **(0.18)** | | 0.20 | | 0.28 | | 0.12 | | (0.57) | |
| **Net (loss)/earnings attributable to CTS Corporation** | **$ (0.12)** | | $ 0.59 | | $ 0.60 | | $ 0.63 | | $ (1.01) | |
| Average basic shares outstanding | **33,601** | | 33,922 | | 34,321 | | 34,090 | | 33,823 | |
| Average diluted shares outstanding | **34,249** | | 34,523 | | 35,006 | | 34,849 | | 33,823 | |
| Cash dividends per share (annualized) | **$ 0.145** | | $ 0.14 | | $ 0.125 | | $ 0.12 | | $ 0.12 | |
| Capital expenditures[2] | **13,982** | | 16,323 | | 20,307 | | 13,271 | | 6,537 | |
| Depreciation and amortization | **21,169** | | 19,615 | | 17,548 | | 17,565 | | 19,531 | |
| **Financial Position at Year End** | | | | | | | | | | |
| Current assets | **$ 236,269** | | $ 309,558 | | $ 283,386 | | $ 266,655 | | $ 193,735 | |
| Current liabilities | **95,120** | | 115,040 | | 124,237 | | 120,100 | | 90,516 | |
| Current ratio | **2.5 to 1** | | 2.7 to 1 | | 2.3 to 1 | | 2.2 to 1 | | 2.1 to 1 | |
| Working capital | **$ 141,149** | | $ 194,518 | | $ 159,149 | | $ 146,555 | | $ 103,219 | |
| Inventories | **32,226** | | 81,752 | | 92,540 | | 76,885 | | 54,348 | |
| Net property, plant and equipment | **74,869** | | 93,725 | | 84,860 | | 78,213 | | 81,120 | |
| Total assets | **480,265** | | 561,190 | | 480,815 | | 482,584 | | 407,657 | |
| Short-term notes payable | **—** | | — | | — | | — | | — | |
| Long-term debt | **75,000** | | 153,500 | | 74,400 | | 70,000 | | 50,400 | |
| Long-term obligations, including long-term debt | **88,416** | | 178,392 | | 93,281 | | 88,234 | | 69,687 | |
| Shareholders' equity | **296,729** | | 267,758 | | 263,297 | | 274,250 | | 247,454 | |
| Common shares outstanding (000s) | **33,559** | | 33,433 | | 34,066 | | 34,197 | | 33,893 | |
| Equity (book value) per share | **$ 8.84** | | $ 8.01 | | $ 7.73 | | $ 8.02 | | $ 7.30 | |
| Stock price range | **$20.10-9.33** | | $11.22-7.06 | | $12.39-7.14 | | $11.84-6.81 | | $10.62-2.11 | |

(1) *Excludes amortization of intangible asset.*

(2) *Includes capital expenditures to replace property, plant and equipment damaged in casualties of $2,859 and $4,733 in 2012 and 2011, respectively.*

Certain acquisitions, divestitures, closures of operations or product lines, and certain accounting reclassifications affect the comparability of information contained in the "Five-Year Summary."

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

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

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

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

*Interest Rate Risk*

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

*Foreign Currency Risk*

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

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

*Commodity Price Risk*

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

## Item 8. Financial Statements and Supplementary Data

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

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

None.

## Item 9A. Controls and Procedures

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

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

*Changes in Internal Control over Financial Reporting*

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

## Item 9B. Other Information

None.

# PART III

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

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

**Item 11. Executive Compensation**

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

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

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

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

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

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

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

# PART IV

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

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

**(a) (3) Exhibits**

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

(2)(ii) Stock Purchase Agreement, dated October 2, 2013, between CTS Corporation and Benchmark Electronics, Inc. (incorporated by reference to Exhibit 2 (a) to the Quarterly Report on Form 10-Q for the quarter ended September 29, 2013, filed with the SEC on October 29, 2013. **

(3)(i) Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 5 to the Current Report on Form 8-K, filed with the SEC on September 1, 1998).

(3)(ii) Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3 to the Current Report on Form 8-K, filed with the SEC on February 8, 2010).

(10)(a) Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on November 12, 2008).

(10)(b) CTS Corporation Stock Retirement Plan for Non-Employee Directors, effective April 30, 1990, as amended (incorporated by reference to Exhibit (10)(a) to the Quarterly Report on Form 10-Q for the quarter ended March 30, 2003, filed with the SEC on April 23, 2003).*

(10)(c) Amendment to the CTS Corporation Stock Retirement Plan for Non-Employee Directors, dated as of December 1, 2004 (incorporated by reference to Exhibit (10)(j) to the Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 4, 2005).

(10)(d) CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit (10)(t) to the Annual Report on Form 10-K for the year ended December 31, 2002, filed with the SEC on February 14, 2003).*

(10)(e) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the quarter ended June 29, 2003, filed with the SEC on July 25, 2003).*

(10)(f) CTS Corporation 2004 Omnibus Long-term Incentive Plan and Incentive Stock Option Agreement (incorporated by reference to the Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, filed with the SEC on October 19, 2004).*

(10)(g) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(p) to the Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on February 27, 2006).*

(10)(h) Amendments to the CTS Corporation Pension Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 2, 2006, filed with the SEC on April 26, 2006).*

(10)(i) Credit Agreement, dated as of November 18, 2010, by and among CTS Corporation, the Lenders named therein and Harris N.A. as L/C Issuer, and Administrative Agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K, filed with the SEC on November 22, 2010).

(10)(j) First amendment to Credit Agreements dated as of January 10, 2012, by and among CTS Corporation, the lenders name therein and Harris N.A. as L/C issuer and administrative agent (incorporated by reference to Exhibit 10(a) to the Current Report on Form 8-K filed with the SEC on January 11, 2012).

(10)(k) Amendment No. 1 to the CTS Corporation 2004 Omnibus Long-term Incentive Plan (incorporated by reference to Exhibit 10(aa) to the Annual Report on Form 10-K filed with the SEC on May 15, 2007).*

(10)(l) CTS Corporation Management Incentive Plan, approved by the shareholders on June 28, 2007 (incorporated by reference to Appendix A to the Proxy Statement for the 2007 Annual Meeting of Shareholders, filed with the SEC on May 24, 2007).*

(10)(m) Performance Share Agreement between CTS Corporation and Vinod M. Khilnani, dated August 1, 2007 (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).*

(10)(n) Prototype Individual Excess Benefit Retirement Plan (incorporated by reference to Exhibit 10(d) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on October 24, 2007).*

(10)(o) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit 10(bb) to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 23, 2009).*

(10)(p) 2009-2010 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended March 29, 2009, filed with the SEC on April 29, 2009).*

(10)(q) CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).*

(10)(r) 2010 – 2011 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 4, 2010, filed with the SEC on April 28, 2010).*

(10)(s) Form Restricted Stock Unit Agreement (Shares) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).*

(10)(t) Form Restricted Stock Unit Agreement (Cash) (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed with the SEC on May 28, 2009).*

(10)(u) CTS Corporation Executive Severance Policy, effective as of September 10, 2009 (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarter ended September 27, 2009, filed with the SEC on October 28, 2009).*

(10)(v) Amendments to the CTS Corporation Pension Plan (formerly known as the CTS Corporation Salaried Employees' Pension Plan) (incorporated by reference to Exhibit 10(w) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 24, 2011).*

(10)(w) Letter Agreement dated February 19, 2010 by and among CTS Corporation, Toyota Motor Sales, U.S.A. Inc., Toyota Canada Inc. and Toyota Motor Engineering & Manufacturing North America, Inc. (incorporated by reference to Exhibit 10(a) to the Quarterly Report on form 10-Q for the quarter ended October 3, 2010, filed with the SEC October 27, 2010).

(10)(x) Prototype Change in Control Agreement (incorporated by reference to Exhibit 10(x) to the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 23, 2012).*

(10)(y) 2011- 2012 Performance Restricted Stock Unit Plan (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended April 3, 2011, filed with the SEC on April 27, 2011). *

(10)(z) Agreement, dated as of March 27, 2012, by and between CTS Corporation and Vinod M. Khilnani (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on March 30, 2012).*

(10)(aa) CTS Corporation Management Incentive Plan, approved by the shareholders on May 23, 2012 (incorporated by reference to Appendix A to the Proxy Statement for the 2012 Annual Meeting of Shareholders, filed with the SEC on April 17, 2012).*

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

* *Management contract or compensatory plan or arrangement.*

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

## SIGNATURES

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

**CTS Corporation**

Date: March 3, 2014

By: */s/ Ashish Agrawal*
Ashish Agrawal
Vice President and Chief Financial Officer
(Principal Accounting Officer)

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

Date: March 3, 2014

By: */s/ Kieran M. O'Sullivan*
Kieran M. O'Sullivan
Director, President, and Chief Executive Officer
(Principal Executive Officer)

Date: March 3, 2014

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

Date: March 3, 2014

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

Date: March 3, 2014

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

Date: March 3, 2014

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

Date: March 3, 2014

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

Date: March 3, 2014

By: */s/Gordon Hunter*
Gordon Hunter
Director

Date: March 3, 2014

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

Date: March 3, 2014

By: */s/ Robert A. Profusek*

Robert A. Profusek
Director

Date: March 3, 2014

By: */s/Ashish Agrawal*

Ashish Agrawal
Vice President and Chief Financial Officer
(Principal Accounting Officer)

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

## CTS CORPORATION AND SUBSIDIARIES

## INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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

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

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

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

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

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

Notes to consolidated financial statements

Schedule II — Valuation and Qualifying Accounts

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

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

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

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

CTS Corporation
Elkhart, Indiana
March 3, 2014

/s/ Kieran M. O'Sullivan

Kieran M. O'Sullivan
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Ashish Agrawal

Ashish Agrawal
Vice President and Chief Financial Officer
(Principal Accounting Officer)

# EXHIBIT (13)

# MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (2011-2013)

*Overview*

CTS Corporation ("we", "our", "us") is a global manufacturer of electronic components and sensors used primarily in the automotive, communications, defense and aerospace, medical, industrial and computer markets.

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

Below are highlights from continuing operations. They are discussed in more detail throughout this MD&A.

- Full-year sales of $409.5 million in 2013 increased $105.0 million, or 34.5%, compared to $304.5 million in 2012.
- Gross margin as a percentage of sales was 29.6% in 2013 compared to 30.1% in 2012.
- Selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses totaled $93.2 million in 2013 compared to $84.0 million in 2012.
- A $10.3 million gain was recorded in 2012 as the result of a sale-leaseback transaction of our Singapore manufacturing facility.
- Operating earnings in 2013 were $17.7 million, compared to $15.1 million in 2012. These amounts included $10.5 million and $3.4 million for restructuring and impairment charges in 2013 and 2012, respectively.
- Net interest and other income in 2013 was $0.4 million compared to a $0.6 million expense in 2012, primarily due to greater foreign exchange gains in 2013.
- Income tax expense for 2013 was $16.1 million compared to $1.0 million in 2012. The 2013 increase was primarily due to the non-cash tax expenses recorded for the cash repatriation from Singapore of $10.5 million in 2013 and restructuring-related tax asset impairment in the U.K. of $1.0 million.
- Net income from continuing operations was $2.0 million, or $0.06 per diluted share, in 2013 compared to $13.5 million, or $0.39 per diluted share, in 2012.

**Critical Accounting Policies**

Our MD&A is based on our consolidated financial statements that have been prepared in accordance with United States Generally Accepted Accounting Principles ("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 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 required. 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 and when an impairment triggering event occurs. As a result of two acquisitions in 2012, we had goodwill of $32.0 million at December 31, 2013 compared to $32.5 million at December 31, 2012.

The valuation of long-lived and intangible assets, including goodwill acquired in conjunction with an acquisition is recorded at estimated fair values in accordance with U.S. GAAP.

*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 using the "more-likely-than-not" criterion.

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 the tax rates that will be in effect when the differences are projected to reverse. 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 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 2013 against the U.S. federal net deferred tax assets including the U.S. net operating loss carry-forward asset of $24.4 million, the majority of which will expire during the period of 2021 through 2024. We assessed the future realization of these deferred tax assets utilizing taxable income projections for years 2014 through 2021. Those projections applied taxable income estimates consistent with historical earnings patterns of our traditional automotive product lines, continued profitability in our electronic component product lines, and the benefits from recent acquisitions. We believe that, based upon the historical operating performance of our business units and successful cost reduction efforts we, more-likely-than-not, will realize the benefits of our U.S. net deferred tax assets. To date, we have recorded tax benefits on the net operating losses generated in certain foreign jurisdictions, such as China, based upon our ability to generate sufficient taxable income within the carry-forward periods provided in each jurisdiction. If it appears that we will not generate such taxable income we may need to record a valuation allowance against the related deferred tax asset in a future period.

*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 4.06% for 2013. We have two foreign plans: the United Kingdom plan ("UK plan") and the Taiwan plan. The discount rate used to calculate our 2013 pension expense for the UK plan is 4.1%. The discount rate used to calculate our 2013 pension expense for the Taiwan plan was 1.75%.

The discount rate used to calculate our pension benefit asset and obligation at December 31, 2013 on our domestic plans was 4.84%. The discount rate used to calculate our pension benefit obligation at December 31, 2013 on our UK plan was 4.4%. The discount rate used to calculate our pension benefit obligation at December 31, 2013 on our Taiwan plan was 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 was 7.75% in 2013. The expected return on our UK plan assets was 3.3%. 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 was 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.

All experience gains and losses for our qualified domestic plan are amortized over a period of 24 years, which is the expected future lifetime of our inactive employees. All experience 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 experience gains and losses for our UK plan are amortized over the remaining life expectancy of 30 years. All experience gains and losses for our Taiwan plan are amortized over a period of 14 years, which is the average remaining service life of our active employees.

In the fourth quarter of 2013, a modification was made to the domestic plan freezing benefits for all salaried and non-bargained hourly participants effective December 31, 2013. We recorded a curtailment charge of $0.7 million for the year ended December 31, 2013 in conjunction with the freeze.

*Equity-Based Compensation*

The fair values of our service-based and our performance-based restricted stock units ("RSUs") are the closing prices of our common stock on the dates of grant. The fair value of our market-based RSU is determined by using a simulation, or Monte Carlo, approach. Under this approach, stock return from comparative 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 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

*Sales in Geographic Regions*

The following table presents the percentage of sales into each geographic region from continuing operations:

| | Net Sales | | |
|---|---|---|---|
| **Geographic Region** | **2013** | 2012 | 2011 |
| Americas | **53%** | 42% | 37% |
| Asia-Pacific | **34%** | 38% | 39% |
| Europe | **13%** | 20% | 24% |
| Total | **100%** | 100% | 100% |

The percentage increase in the Americas in 2013 was primarily due to the D&R Technology ("D&R") aquisition and the increased sales of CTS smart actuators for diesel engines. The percentage increase in 2012, relative to 2011, was due to the launch of the smart actuators for diesel engines and other new product launches. Net sales in the Asia-Pacific region remained relatively consistent during the three-year period. Net sales decreased due to the weakening European automotive market during this timeframe and the increase in the Americas sales.

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, 2013 | 2012 | 2011 |
|---|---|---|---|
| Net Sales | **$409,461** | $304,481 | $279,857 |
| Gross margin | **121,353** | 91,516 | 89,223 |
| % of sales | **29.6%** | 30.1% | 31.9% |
| Insurance recovery for business interruption | **—** | (637) | — |
| Selling, general and administrative expenses | **69,989** | 63,071 | 54,136 |
| % of sales | **17.1%** | 20.7% | 19.3 % |
| Research and development expenses | **23,222** | 20,918 | 19,990 |
| % of sales | **5.7%** | 6.9% | 7.1 % |
| Restructuring and impairment charges | **10,455** | 3,437 | 2,389 |
| Gain on sale-leaseback | **—** | (10,334) | — |
| Operating earnings | **17,687** | 15,061 | 12,708 |
| % of sales | **4.3%** | 4.9% | 4.5% |
| Total other income | **376** | (617) | (392) |
| Earnings from continuing operations before income taxes | **18,063** | 14,444 | 12,316 |
| Income tax expense | **16,066** | 952 | 1,053 |
| Earnings from continuing operations | **$ 1,997** | $ 13,492 | $ 11,263 |
| % of sales | **0.5%** | 4.4% | 4.0% |
| (Loss)/earnings from discontinued operations, including loss on sale of $5.1 million net of tax in 2013 | **$ (5,926)** | $ 6,841 | $ 9,704 |
| Diluted earnings per share: | | | |
| Continuing operations | **$ 0.06** | $ 0.39 | $ 0.32 |
| Discontinued operations | **$ (0.18)** | $ 0.20 | $ 0.28 |
| **Net (loss)/earnings attributable to CTS Corporation** | **$ (0.12)** | **$ 0.59** | **$ 0.60** |

Net Sales from continuing operations of $409.5 million in 2013 increased by $105.0 million, or 34.5%, from 2012 due to sales from our D&R acquisition of $49.2 million and the impact of new product introductions and new customers. Sales of $304.5 million in 2012 increased by $24.6 million, or 8.8% from 2011 primarily due to new product introductions and new customers.

In our continuing operations, our 15 largest customers represented 59.8%, 59.5%, and 55.5% of sales in 2013, 2012, and 2011, respectively. We continue our efforts to diversify our product offerings through new products, new customers and acquisitions.

Gross margin in 2013 were $121.4 million, compared to $91.5 million in 2012. Gross margin percentage was 29.6% of sales in 2013, similar to 30.1% in 2012.

Gross margin in 2012 increased by $2.3 million, or 2.6%, from 2011. Gross margin from new product sales were partly offset by program launch cost for new product introductions and unfavorable impact of commodity and precious metal prices.

SG&A expenses were $70.0 million, or 17.1% of sales from continuing operations, in 2013 versus $63.1 million, or 20.7% of sales from continuing operations in 2012. SG&A expenses increased primarily due to the D&R acquisition and approximately $4.1 million of CEO transition expenses.

SG&A expenses were $63.1 million, or 20.7% of sales from continuing operations, in 2012 versus $54.1 million, or 19.3% of sales from continuing operations, in 2011. SG&A expenses increased primarily due to the Valpey-Fisher acquisition, a shift from pension income to pension expense, additional legal costs, and CEO search costs.

R&D expenses were $23.2 million, or 5.7% of sales, in 2013 versus $20.9 million, or 6.9% of sales, in 2012. R&D expenses were primarily focused on expanded applications of existing products and new product development.

R&D expenses were $20.9 million, or 6.9% of sales, in 2012 versus $20.0 million, or 7.1% of sales, in 2011. The increase was primarily driven by spending to continue to develop and launch new products and growth initiatives.

A $10.3 million gain was recorded in 2012 as the result of a sale-leaseback transaction of our Singapore manufacturing facility.

Operating earnings from continuing operations in 2013 were $17.7 million, compared to $15.1 million in 2012. Included in operating earnings were $10.5 million and $3.4 million of restructuring and impairment charges for the years ended December 31, 2013 and December 31, 2012, respectively. 2012 also included the $10.3 million sale-leaseback gain.

Operating earnings from continuing operations in 2012 were $15.1 million, compared to $12.7 million in 2011. Included in operating earnings were $3.4 million and $2.4 million of restructuring and impairment charges for the years ended December 31, 2012 and December 31, 2011, respectively. 2012 also included the $10.3 million sale-leaseback gain.

Net interest and other income from continuing operations in 2013 was $0.4 million versus a $0.6 million expense in 2012, and a $0.4 million expense in 2011. The change was primarily due to more favorable foreign exchange gains as a result of the Chinese Renminbi appreciating more in 2013 than in 2012.

Income tax expense from continuing operations were $16.1 million, $1.0 million and $1.1 million in 2013, 2012 and 2011, respectively. The 2013 increase was primarily due to the non-cash tax expenses recorded for the cash repatriation from Singapore of $10.5 million in 2013 and restructuring-related tax asset impairment in the U.K. of $1.0 million.

As a result, net earnings from continuing operations were $2.0 million in 2013 compared to $13.5 million in 2012. The increase in 2013 gross margin was reduced by higher operating expense, higher restructuring expenses relative to 2012 and higher income tax expense. Additionally, 2012 included gains on a sale lease-back transaction.

Net earnings from continuing operations of $13.5 million in 2012 compared to $11.3 million in 2011. 2012 included the $10.3 million gain on sale leaseback and gross margins from higher sales partly offset by higher SG&A expenses.

*Restructuring and Restructuring-Related Charges*

During June of 2013, CTS announced plans to further restructure its operations to align its operations to the business needs of the Company. These restructuring actions will result in the elimination of approximately 350 positions. These actions are expected to be completed in 2014. Of the restructuring and restructuring-related charges, $11.5 million was included in continuing operations and $1.4 million was included in discontinued operations for the period ended December 31, 2013. These restructuring activities will simplify CTS' global footprint by consolidating manufacturing facilities into existing locations. This plan includes the consolidation of manufacturing operations from the U.K. facility into the Czech Republic facility, the Carol Stream, Illinois facility into the Juarez, Mexico facility and the discontinuation of manufacturing at the Singapore facility.

During December 2012, we realigned our operations to improve our operational effectiveness. These realignment actions resulted in the elimination of approximately 190 positions. Of the restructuring and restructuring-related charges, $2.7 million was included in continuing operations and $1.5 million was included in discontinued operations. These actions were substantially complete by the end of the first quarter of 2013.

During June 2012, we initiated certain restructuring actions to reorganize certain operations to further improve our cost structure. These actions resulted in the elimination of approximately 250 positions. Of the restructuring and restructuring-related charges incurred, $2.1 million was included in continuing operations and $3.1 million was included in discontinued operations for 2012. As of December 31, 2012, the restructuring actions were substantially complete.

In October 2011, we announced plans to realign certain manufacturing operations and eliminate approximately 100 net positions during the fourth quarter of 2011. Of the restructuring and restructuring-related costs incurred, $2.1 million was included in continuing operations and $0.3 million was included in discontinued operations. 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 of 2011. Of the restructuring charges incurred, $0.5 million was included in continuing operations and $0.2 million was included in discontinued operations.

See Note P, "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 D, "Fair Value Measurements," to our consolidated financial statements for further discussion.

Our financial instruments consist primarily of cash, cash equivalents, trade receivables and payables, obligations under short-term notes payable, long-term debt and interest rate swaps. 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. Our long-term debt consists of a revolving credit facility. We estimated the fair value of our long-term debt to be $75.0 million, using a market approach which uses current industry information and approximates 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. Similarly, the fair values of our interest rate swaps were measured using a market approach which uses current industry information. There is a readily determinable market and these swaps are classified within level 2 of the fair value hierarchy. $0.4 million of the fair value of these swaps is classified as a current liability and the remaining $0.6 million is classified as a non-current liability on our Consolidated Balance Sheets. Refer to Note D, "Fair Value Measurements," to our consolidated financial statements for further discussion.

### Acquisitions

In December 2012, we acquired D&R for approximately $63.5 million in cash. D&R is a leading manufacturer of custom designed sensors, switches and electromechanical assemblies primarily serving the automotive light-vehicle market. This acquisition expanded our strategic automotive sensor product platform with new customers and a broader product portfolio. The acquisition brings new growth opportunities from sensor applications for safety systems and vehicle chassis management. Additionally, D&R brought strong sensor design and development engineering capabilities to complement our world-class engineering team.

The D&R 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 estimated fair market values on the date of acquisition. These allocations were finalized as of December 31, 2013.

In January 2012, we acquired 100% of the common stock of Valpey-Fisher Corporation, a publicly held company located in Hopkinton, Massachusetts for approximately $14.7 million, net of cash acquired. Valpey-Fisher is a recognized technology leader in the design and manufacture of precision frequency crystal oscillators. This acquisition expanded our technology, and brought strong engineering capabilities and management leadership to support our strategic initiatives.

The Valpey-Fisher acquisition was accounted for using the acquisition method of accounting whereby the total purchase price is allocated to tangible and intangible assets and liabilities based on the fair market values on the date of acquisition. We determined the purchase price allocations on the acquisition based on the fair values of the assets acquired and liabilities assumed. These allocations were finalized as of December 31, 2012.

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 of cash on hand and expanded our frequency product portfolio. The assets acquired included machinery and equipment, inventory and certain intellectual property.

### Liquidity and Capital Resources

*Overview*

Cash and cash equivalents were $124.4 million at December 31, 2013, compared to $109.6 million at December 31, 2012. Total debt decreased to $75.0 million on December 31, 2013 from $153.5 million on

December 31, 2012, primarily due to the EMS divestiture. Total debt as a percentage of total capitalization was 20.2% at the end of 2013, compared with 36.4% at the end of 2012. 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 decreased $53.1 million in 2013 compared to 2012, primarily due to the EMS divestiture. The decrease in inventories of $49.5 million and accounts receivable of $26.7 million was partially offset by a decrease in accounts payable of $20.9 million.

*Operating Activities*

Net cash provided by operating activities was $37.6 million in 2013. Components of net cash provided by operating activities included the net loss of $3.9 million, depreciation and amortization expense of $21.2 million, restructuring and asset impairment charges of $11.9 million, amortization of retirement benefit adjustments of $8.1 million, equity-based compensation of $4.2 million, deferred income tax of $12.6 million, EMS loss on sale of $1.2 million, which were partially offset by a net changes in assets and liabilities of $3.6 million, change in the prepaid pension asset of $5.7 million and pension liability of $8.3 million. The changes in assets and liabilities, excluding the EMS divestiture, were primarily due to increased inventories of $2.5 million and increased accounts receivable of $6.1 million, partially offset by increased accounts payable and accrued liabilities of $5.4 million.

Net cash provided by operating activities was $41.7 million in 2012. Components of net cash provided by operating activities included net earnings of $20.3 million, depreciation and amortization expense of $19.6 million, restructuring and asset impairment charges of $6.4 million, and net changes in assets and liabilities of $3.2 million, which were partially offset by a change in the prepaid pension asset of $7.4 million and pension liability of $1.6 million. The changes in assets and liabilities were primarily due to decreased inventories of $18.8 million and decreased accounts receivable of $9.5 million partially offset by decreased accounts payable and accrued liabilities of $26.5 million. Accounts receivable decreased year-over-year primarily due to timing of sales, which were lower in the fourth quarter of 2012 than the fourth quarter of 2011.

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 $13.8 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.

*Investing Activities*

Net cash provided investing activities in 2013 was $62.8 million primarily from the proceeds from the sale of the EMS business of $75.0 million, partially offset by capital expenditures of $14.0 million.

Net cash used in investing activities in 2012 was $74.1 million, primarily for the D&R acquisition and Valpey-Fisher acquisition of $78.2 million, and capital expenditures of $13.5 million, partially offset by proceeds from Singapore sale-leaseback of $17.7 million.

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 SA acquisition of $2.9 million, partially offset by insurance proceeds for property damage due to casualty of $6.8 million.

*Financing Activities*

Net cash used by financing activities in 2013 was $86.6 million, consisting primarily of a net decrease in long-term debt of $78.5 million, $6.2 million in treasury stock purchases and $4.9 million in dividend payments. The long-term debt reduction was achieved primarily by using the proceeds from the EMS divestiture to repay debt.

Net cash provided by financing activities in 2012 was $65.8 million, consisting primarily of a net increase in long-term debt of $79.1 million, offset by $10.4 million in common stock repurchases and $4.8 million in dividend payments.

The additional debt was primarily used to fund the D&R and Valpey-Fisher acquisitions.

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 common stock repurchases, 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.

*Capital Resources*

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

On January 10, 2012, we amended our agreement governing our unsecured revolving credit facility originally entered into on November 18, 2010. 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 changes, the amendment reduced the applicable margin by 25 basis points, increased the total consideration we are permitted to pay for non-U.S.-based acquisitions, and extended the term of the revolving credit facility through January 10, 2017.

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

| ($ in thousands) | **2013** | 2012 |
|---|---|---|
| Revolving credit facility, weighted-average interest rate of 1.9% (2013) and 1.8% (2012), due in 2017 | **$75,000** | $153,500 |
| Less current maturities | **—** | — |
| Total long-term debt | **$75,000** | $ 153,500 |

There was $75.0 million outstanding under the revolving credit facility at December 31, 2013 and $153.5 million outstanding under the revolving credit facility at December 31, 2012. We had $122.4 million available under the credit facility at December 31, 2013, net of standby letters of credit of $2.6 million, and $43.9 million available under the credit facility at December 31, 2012, net of standby letters of credit of $2.6 million. Interest rates on the revolving credit facility fluctuate based upon the London Interbank Offered Rate and our quarterly total leverage ratio. We pay a commitment fee on the undrawn portion of the revolving credit facility. The commitment fee varies based on the quarterly leverage ratio and was 0.30% percent per annum at December 31, 2013. The revolving credit facility 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 our borrowing availability under the revolving credit facility. We were in compliance with all debt covenants at December 31, 2013. The revolving credit facility requires us to deliver quarterly financial statements, annual financial statements, auditors certifications and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, the revolving facility contains restrictions limiting our ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with subsidiaries and affiliates; and make stock repurchases and dividend payments.

We use interest rate swaps to convert the line of credit's variable rate of interest into a fixed rate. During the second quarter of 2012, we entered into four separate interest rate swap agreements to fix interest rates on $50 million of long-term debt for the periods January 2013 to January 2017. In the third quarter of 2012, we entered into four separate interest rate swap agreements to fix interest rates on $25 million of long-term debt for the periods January 2013 to January 2017. The difference to be paid or received under the terms of the swap agreement will be recognized as an adjustment to interest expense for the related line of credit when settled.

These swaps are treated as cash flow hedges and consequently, the changes in fair value were recorded in Other Comprehensive Income. An unrealized gain of approximately $0.3 million was recorded in Other Comprehensive Income/(Loss) for the year ended December 31, 2013. Approximately $0.4 million was recorded as a current liability and $0.6 million recorded as a non-current liability in Other Long-term Obligations on the Consolidated Balance Sheets.

As a result of the use of these derivative instruments, we are exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we have a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors. Our established policies and procedures for mitigating credit risk on principal transactions include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties.

In June 2013, our Board of Directors authorized a program to repurchase up to one million shares of CTS common stock in the open market. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2013, there were no shares repurchased under this program.

In August 2012, 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. In August 2013, our Board of Directors amended the program to remove the maximum price per share provision. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2013, we repurchased 419,190 shares, at a total cost of $6.2 million, or an average price of $14.80 per share, under this program. During 2012, we repurchased 531,695 shares, at a total cost of $4.7 million, or an average price of $8.87 per share, under this program.

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 had no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2012, we repurchased 574,153 shares at a total cost of $5.7 million, or an average price of $9.85 per share, under this program. During 2011, we repurchased 403,347 shares at a total cost of $3.6 million, or an average price of $8.86 per share, under this program. No repurchases were made in 2010.

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, 2013, are expected to have on our liquidity and cash flow in future periods:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| ($ in millions) | Total | 2014 | 2015-2016 | 2017-2018 | 2019-beyond |
| Long-term debt, including interest | $ 79.8 | $ 1.6 | $3.1 | $75.1 | $— |
| Operating lease payments | 13.0 | 3.8 | 4.4 | 3.3 | 1.5 |
| Obligations related to uncertain tax positions | 4.0 | 0.1 | — | — | 3.9 |
| Purchase obligations | — | — | — | — | — |
| Retirement obligations | 15.5 | 7.9 | 1.8 | 2.2 | 3.6 |
| **Total** | $112.3 | $13.4 | $9.3 | $80.6 | $9.0 |

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 I, "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 2014. For plan asset allocation details, please refer to Note I, "Retirement Plans," to our consolidated financial statements. Our established asset allocation target is 60% stocks, 25% bonds, and 15% other. 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.

During 2013, actual returns on plan assets deviated significantly from expected returns on plan assets. The deviation between expected and actual returns was primarily due to higher-than-expected 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, except for operating leases, 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.

As of December 31, 2013, the amount of cash and cash equivalents held by foreign subsidiaries was $109.7 million. If these funds are needed for our operations in the U.S., we would be required to accrue U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not require us to repatriate them to fund our U.S. operations, which have sufficient liquidity. Any repatriation may not result in significant cash income tax payments as the taxable event would likely be offset by the utilization of the then available net operating losses and tax credits.

**2014 Outlook**

We anticipate full-year 2014 sales to increase in the range of 4% to 6% over 2013 and diluted earnings per share to be in the range of $0.96 to $1.01. Earnings for 2014 are expected to show gradual improvement during the year, with a stronger second half.

**Thailand EMS Manufacturing Facility Flood**

During the fourth quarter of 2011, our Thailand EMS manufacturing facility was flooded. The flood damaged approximately $0.8 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 had business interruption insurance under these policies that covers the lost sales impact and fixed costs. The maximum amount covered under the local insurance policy was approximately $2.4 million. We also had a secondary global insurance policy that covered costs not covered by the local policy for up to approximately $25 million with a deductible of $250,000.

In 2011, the insurance carrier for the local policy indicated that we would be reimbursed 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 Operations for the year ended December 31, 2011.

In 2012, we received cash of approximately $24.6 million from our insurance carriers. Included in this amount were approximately $21.5 million for business interruption and the remaining $3.1 million for reimbursement of costs related to property damage. Part of this cash received was to relieve the insurance receivable balance of $2.4 million recorded at December 31, 2011.

Accordingly, we recorded a recovery of approximately $20.0 million for business interruption and $1.8 million for property damage in our Consolidated Statements of Operations for the year ended December 31, 2012. These recoveries reflect the final settlements with our insurance carriers.

All Thailand EMS manufacturing facility flood-related expenses and insurance recoveries are reflected in discontinued operations.

### 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 $0.1 million deductible had substantially covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. Business interruption insurance had substantially covered the lost sales impact and related fixed costs in 2011. 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, in 2011, 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 Operations for the year ended December 31, 2011.

In 2012, we recovered approximately $1.1 million from the Company's insurance carriers and recorded a recovery of $0.9 million in our Consolidated Statements of Operations for the year ended December 31, 2012 for business interruption, after deducting $0.1 million for certain expenses and relieving the insurance receivable of approximately $0.1 million at December 31, 2011. These recoveries reflect the final settlements with our insurance carriers.

All Scotland EMS manufacturing facility fire-related expenses and insurance recoveries are reflected in discontinued operations.

### Recent Accounting Pronouncements

ASU 2013-05*, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity"*

In March 2013, the FASB issued Accounting Standards Update 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which requires an entity to release any related cumulative translation adjustment into net income when the entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights). Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This amendment also clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. These provisions are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. CTS is in the process of evaluating the impact of these provisions on its consolidated financial statements. We do not expect these provisions to have a material impact on our financial statements.

ASU 2013-07*, "Presentation of Financial Statements – Liquidation Basis of Accounting"*

In April 2013, the FASB issued Accounting Standards Update 2013-07, "Presentation of Financial Statements – Liquidation Basis of Accounting," which contains guidance on applying the liquidation basis of accounting and the

related disclosure requirements. Under the ASU, an entity must use the liquidation basis of accounting to present its financial statements when it determines that liquidation is imminent, unless the liquidation is the same as that under the plan specified in an entity's governing documents created at its inception. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective or (b) a plan for liquidation is being imposed by other forces. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. These amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. The provisions of ASU 2013-07 are not expected to have a material impact on CTS' consolidated financial statements.

ASU 2013-10, *"Derivatives and Hedging – Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes"*

In July 2013, the FASB issued Accounting Standards Update 2013-10, "Derivatives and Hedging – Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," which permit the Fed Funds Effective Swap Rate (Overnight Interest Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. These amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We do not expect these provisions to have a material impact on our financial statements.

ASU 2013-11, *"Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists"*

In July 2013, the FASB issued Accounting Standards Update 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists," which provides guidance on financial statement presentation of an unrecognized tax benefit (UTB) when an NOL carry-forward, a similar tax loss, or a tax credit carry-forward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. Under this ASU, an entity with an unrecognized tax benefit that is 'not available' or not intended to be used at the reporting date to present the unrecognized tax benefit as a liability that should not be combined with deferred tax assets. Otherwise, the unrecognized tax benefit should be presented as a reduction to the related deferred tax asset. These amendments are effective for public entities for fiscal years beginning after December 15, 2013, and interim periods within those years. Early adoption is permitted. The amendments should be applied prospectively, although retroactive application is permitted. The provisions of ASU 2013-11 are not expected to have a material impact on our consolidated financial statements.

*****

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CTS Corporation

We have audited the internal control over financial reporting of CTS Corporation (an Indiana corporation) and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in the 1992 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible 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" ("Management's Report"). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

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, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 3, 2014 expressed an unqualified opinion on those financial statements.

*/s/ GRANT THORNTON LLP*

Chicago, Illinois
March 3, 2014

# 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, 2013 and 2012, and the related consolidated statements of operations and comprehensive earnings (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule(s) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2014 expressed an unqualified opinion.

*/s/ GRANT THORNTON LLP*

Chicago, Illinois
March 3, 2014

# CTS CORPORATION AND SUBSIDIARIES
## Consolidated Statements of Operations
(In thousands of dollars except per share amounts)

| | Year ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **Net sales** | **$409,461** | $304,481 | $279,857 |
| Costs and expenses: | | | |
| Cost of goods sold | **288,108** | 212,965 | 190,634 |
| Insurance recovery for business interruption — Note N | **—** | (637) | — |
| Selling, general and administrative expenses | **69,989** | 63,071 | 54,136 |
| Research and development expenses | **23,222** | 20,918 | 19,990 |
| Restructuring and impairment charge — Note P | **10,455** | 3,437 | 2,389 |
| Gain on sale-leaseback — Note O | **—** | (10,334) | — |
| **Operating earnings** | **17,687** | 15,061 | 12,708 |
| Other (expense)/income: | | | |
| Interest expense | **(3,264)** | (2,569) | (2,106) |
| Interest income | **1,901** | 1,720 | 1,255 |
| Other | **1,739** | 232 | 459 |
| Total other income/(expense) | **376** | (617) | (392) |
| Earnings from continuing operations before income taxes | **18,063** | 14,444 | 12,316 |
| Income tax expense — Note K | **16,066** | 952 | 1,053 |
| **Earnings from continuing operations** | **1,997** | 13,492 | 11,263 |
| **Discontinued operations** | | | |
| (Loss)/earnings from discontinued operations (net of tax benefit of $162, net of tax of $5,657 and $4,317) | **(778)** | 6,841 | 9,704 |
| Loss on sale of EMS operations (net of tax of $3,923) | **(5,148)** | — | — |
| **(Loss)/earnings from discontinued operations** | **(5,926)** | 6,841 | 9,704 |
| **Net (loss)/earnings** | **$ (3,929)** | $ 20,333 | $ 20,967 |
| **Net earnings per share — Note E** | | | |
| **Basic** | | | |
| Continuing operations | **$ 0.06** | $ 0.40 | $ 0.33 |
| Discontinued operations | **(0.18)** | 0.20 | 0.28 |
| **Net (loss)/earnings attributable to CTS Corporation** | **$ (0.12)** | $ 0.60 | $ 0.61 |
| **Diluted** | | | |
| Continuing operations | **$ 0.06** | $ 0.39 | $ 0.32 |
| Discontinued operations | **(0.18)** | 0.20 | 0.28 |
| **Net (loss)/earnings attributable to CTS Corporation** | **$ (0.12)** | $ 0.59 | $ 0.60 |

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

# CTS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Earnings/(Loss)

(In thousands of dollars)

| | Year ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **Net (loss)/earnings** | **$ (3,929)** | $ 20,333 | $ 20,967 |
| Other comprehensive earnings/(loss): | | | |
| Cumulative translation adjustment (net of tax benefit of $210, $376 and net of tax of $51) | **585** | 1,309 | (251) |
| Defined benefit and post retirement benefit plans: | | | |
| Net actuarial gain/(loss) (net of tax of $19,821, net of tax benefit of $6,150 and $19,660) | **31,821** | (10,047) | (30,947) |
| Amortization of prior service cost included in net earnings (net of tax of $221, $238 and $239) | **277** | 367 | 372 |
| Amortization of gain/(loss) included in net earnings (net of tax of $2,816, $2,422 and $1,688) | **4,807** | 3,896 | 2,746 |
| Settlements and curtailments included in net earnings (net of tax of $513, $111 and $262) | **830** | 171 | 408 |
| Foreign exchange impact, included in net earnings (net of tax benefit of $1, $64 and net of tax of $29) | **3** | (174) | 81 |
| Net defined benefit and post-retirement benefit plans | **37,738** | (5,787) | (27,340) |
| Unrealized gain on interest swaps treated as cash flow hedges: | | | |
| Unrealized holding gain/(loss) arising during period (net of tax of $101 and net of tax benefit of $627) | **188** | (980) | — |
| Reclassification adjustments for losses included in net earnings (net of tax of $126) | **196** | — | — |
| Net change in unrealized holding loss on interest rate swaps | **384** | (980) | — |
| Other comprehensive earnings/(loss) | **38,707** | (5,458) | (27,591) |
| **Comprehensive earnings** | **$34,778** | $ 14,875 | $ (6,624) |

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, 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 124,368** | $ 109,571 |
| Accounts receivable, less allowances (2013 — $139; 2012 — $811) | **62,667** | 89,342 |
| Inventories | | |
| Finished goods | **9,814** | 16,267 |
| Work-in-process | **7,850** | 15,860 |
| Raw materials | **14,562** | 49,625 |
| Total inventories | **32,226** | 81,752 |
| Current deferred tax asset — Note K | **9,426** | 18,789 |
| Other current assets | **7,582** | 9,844 |
| Total current assets | **236,269** | 309,298 |
| Property, plant and equipment | | |
| Land | **3,938** | 4,481 |
| Buildings and improvements | **69,740** | 81,040 |
| Machinery and equipment | **193,179** | 248,897 |
| Total property, plant and equipment | **266,857** | 334,418 |
| Accumulated depreciation | **(191,988)** | (240,693) |
| Net property, plant and equipment | **74,869** | 93,725 |
| Other assets | | |
| Prepaid pension asset — Note I | **56,396** | — |
| Goodwill — Note F | **32,047** | 32,547 |
| Other indefinite-lived intangible asset — Note F | **690** | 870 |
| Other intangible assets, net — Note F | **40,092** | 50,108 |
| Deferred income taxes — Note K | **38,620** | 73,158 |
| Other assets | **1,282** | 1,484 |
| Total other assets | **169,127** | 158,167 |
| **Total Assets** | **$ 480,265** | $ 561,190 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | **$ 47,052** | $ 67,973 |
| Accrued salaries, wages and vacation | **20,822** | 14,080 |
| Income taxes payable | **2,666** | 2,493 |
| Other accrued liabilities | **24,580** | 30,494 |
| Total current liabilities | **95,120** | 115,040 |
| **Long-term debt — Note H** | **75,000** | 153,500 |
| **Long-term portion — interest rate swap — Note H** | **604** | 1,336 |
| **Other long-term obligations — Notes I and K** | **12,812** | 23,556 |
| **Contingencies — Note N** | **—** | — |
| **Shareholders' Equity** | | |
| Preferred stock — authorized 25,000,000 shares without par value; none issued | **—** | — |
| Common stock — authorized 75,000,000 shares without par value; 55,808,008 issued at December 31, 2013 and 55,263,082 issued at December 31, 2012 | **297,164** | 291,512 |
| Additional contributed capital | **39,631** | 40,008 |
| Retained earnings | **358,997** | 367,800 |
| Accumulated other comprehensive loss | **(81,897)** | (120,604) |
| | **613,895** | 578,716 |
| Cost of common stock held in treasury (2013 — 22,249,144 and 2012 — 21,829,954 shares — Note L) | **(317,166)** | (310,958) |
| Total shareholders' equity | **296,729** | 267,758 |
| **Total Liabilities and Shareholders' Equity** | **$ 480,265** | $ 561,190 |

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, 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net (loss)/earnings | **$ (3,929)** | $ 20,333 | $ 20,967 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | **21,169** | 19,615 | 17,548 |
| Prepaid pension asset — Note I | **(5,744)** | (7,432) | (9,363) |
| Pension liability — Note I | **(8,332)** | (1,597) | (737) |
| Amortization of retirement benefit adjustments — Note I | **8,138** | 6,918 | 5,045 |
| Equity-based compensation — Note J | **4,219** | 4,099 | 3,746 |
| Deferred income taxes — Note K | **12,568** | (201) | 1,166 |
| Restructuring charge — Note P | **11,899** | 6,386 | 2,878 |
| Loss on sale of EMS business — Note B | **1,229** | — | — |
| Gain on sale-leaseback transaction — Note O | **—** | (10,334) | — |
| Insurance recovery for business interruption and property damage — casualties | **—** | (22,662) | (10,149) |
| Insurance proceeds for business interruption and property damage other than property, plant and equipment — casualty | **—** | 23,353 | 4,934 |
| Changes in assets and liabilities, net of effects from acquisitions and divestitures: | | | |
| Accounts receivable | **(6,075)** | 9,500 | 8,345 |
| Inventories | **(2,511)** | 18,832 | (16,131) |
| Accounts payable | **4,716** | (17,519) | 3,171 |
| Accrued liabilities | **733** | (8,958) | (6,607) |
| Income taxes payable | **(15)** | (7) | (876) |
| Other | **(494)** | 1,328 | (1,746) |
| Total adjustments | **41,500** | 21,321 | 1,224 |
| **Net cash provided by operations** | **37,571** | 41,654 | 22,191 |
| **Cash flows from investing activities:** | | | |
| Proceeds from sale of assets | **1,768** | 499 | 33 |
| Capital expenditures | **(13,982)** | (13,464) | (15,574) |
| Capital expenditures to replace property, plant and equipment damaged in casualties | **—** | (2,859) | (4,733) |
| Insurance proceeds for property, plant and equipment damaged in casualties | **—** | 2,250 | 6,767 |
| Payment for acquisitions, net of cash acquired — Note C | **—** | (78,189) | (2,889) |
| Proceeds from sale of EMS business — Note B | **75,000** | — | — |
| Proceeds from sale-leaseback transaction | **—** | 17,678 | — |
| **Net cash provided by/(used in) investing activities** | **62,786** | (74,085) | (16,396) |
| **Cash flows from financing activities:** | | | |
| Borrowings of long-term debt | **3,786,000** | 5,540,700 | 1,967,000 |
| Payments of long-term debt | **(3,864,500)** | (5,461,600) | (1,962,600) |
| Borrowings of short-term notes payable | **2,218** | 2,271 | 3,103 |
| Payments of short-term notes payable | **(2,218)** | (2,271) | (3,103) |
| Purchase of treasury stock | **(6,208)** | (10,374) | (3,575) |
| Dividends paid | **(4,874)** | (4,759) | (4,119) |
| Exercise of stock options | **2,722** | 1,679 | 472 |
| Other | **294** | 160 | 206 |
| **Net cash (used in)/provided by financing activities** | **(86,566)** | 65,806 | (2,616) |
| Effect of exchange rate changes on cash | **1,006** | (216) | (82) |
| Net increase in cash and cash equivalents | **14,797** | 33,159 | 3,097 |
| Cash and cash equivalents at beginning of year | **109,571** | 76,412 | 73,315 |
| Cash and cash equivalents at end of year | **$ 124,368** | $ 109,571 | $ 76,412 |
| **Supplemental cash flow information** | | | |
| Cash paid during the year for: | | | |
| Interest | **$ 3,104** | $ 2,258 | $ 1,763 |
| Income taxes — net | **$ 6,431** | $ 6,786 | $ 4,730 |

**Supplemental schedule of non-cash investing and financing activities:**

Refer to Note C, "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) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| **Balances at January 1, 2011** | $285,515 | $37,775 | $335,524 | $ (87,555) | $(297,009) | $274,250 |
| Net earnings | | | 20,967 | | | 20,967 |
| Cumulative translation adjustment, net of tax of $51 | | | | (251) | | (251) |
| Other comprehensive income, net of tax of $17,443 | | | | | | |
| Prior service costs | | | | 372 | | 372 |
| Unrecognized loss | | | | (27,712) | | (27,712) |
| 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 |
| Net earnings | | | 20,333 | | | 20,333 |
| Cumulative translation adjustment, net of tax benefit of $376 | | | | 1,309 | | 1,309 |
| Unrealized loss on cash flow hedges, net of tax benefit $627 | | | | (980) | | (980) |
| Other comprehensive income, net of tax benefit of $3,444 | | | | | | |
| Prior service costs | | | | 367 | | 367 |
| Unrecognized loss | | | | (6,154) | | (6,154) |
| Cash dividends of $0.14 per share | | | (4,738) | | | (4,738) |
| Acquired 1,105,848 shares for treasury stock | | | | | (10,374) | (10,374) |
| Issued 197,480 shares on exercise of stock options — net | 1,679 | (6) | | | | 1,673 |
| Issued 275,492 shares on vesting of restricted stock units | 2,172 | (3,430) | | | | (1,258) |
| Tax benefit on vesting of restricted stock units | | 184 | | | | 184 |
| Stock compensation | | 4,099 | | | | 4,099 |
| **Balances at December 31, 2012** | $291,512 | $40,008 | $367,800 | $(120,604) | $(310,958) | $267,758 |
| Net loss | | | **(3,929)** | | | **(3,929)** |
| Cumulative translation adjustment, net of tax benefit of $**210** | | | | **585** | | **585** |
| Unrealized gain on cash flow hedges, net of tax of $**225** | | | | **384** | | **384** |
| Other comprehensive income, net of tax of $**23,370** | | | | | | |
| Prior service costs | | | | **277** | | **277** |
| Unrecognized gain | | | | **37,461** | | **37,461** |
| Cash dividends of $0.**145** per share | | | **(4,874)** | | | **(4,874)** |
| Acquired **419,190** shares for treasury stock | | | | | **(6,208)** | **(6,208)** |
| Issued **266,043** shares on exercise of stock options — net | **2,722** | **31** | | | | **2,753** |
| Issued **278,883** shares on vesting of restricted stock units | **2,930** | **(4,744)** | | | | **(1,814)** |
| Tax benefit on vesting of restricted stock units | | **117** | | | | **117** |
| Stock compensation | | **4,219** | | | | **4,219** |
| **Balances at December 31, 2013** | **$297,164** | **$39,631** | **$358,997** | **$ (81,897)** | **$(317,166)** | **$296,729** |

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. The Company designs, manufactures, assembles, and sells a broad line of electronic components and sensors. CTS operates manufacturing facilities located throughout North America, Asia and Europe and services major markets globally.

On October 2, 2013, the Company sold its electronics manufacturing solutions ("EMS") business to Benchmark Electronics, Inc. ("Benchmark") for approximately $75 million in cash. Due to the sale, EMS has been reported separately as discontinued operations. Refer to Note B, "Discontinued Operations."

**Principles of Consolidation:** The consolidated financial statements include the accounts of CTS and its wholly-owned subsidiaries. Refer to Note C, "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. GAAP") 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. CTS' Consolidated Statements of Operations from continuing operations include approximately $1.0 million of foreign currency gain for the year ended December 31, 2013, $0.1 million of foreign currency gain for the year ended December 31, 2012 and $0.1 million of foreign currency gain for the year ended December 31, 2011.

Approximately $0.3 million of foreign currency loss for the year ended December 31, 2013, $0.7 million of foreign currency gain for the year ended December 31, 2012 and $1.5 million of foreign currency gain for the year ended December 31, 2011 are included in discontinued operations.

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. Consolidated Statement of Operations accounts are translated at the average rates during the period.

**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.

**Concentration of Credit 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, 2013, December 31, 2012 and December 31, 2011. 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 ("R&D") 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, net of customer reimbursements for sales of prototype and non-recurring engineering charges.

CTS creates prototypes and tools related to R&D projects. A prototype is defined as a non-production intent constructed product. CTS also incurs engineering costs related to R&D activities. Such costs are incurred to support such activities to improve the reliability, performance and cost-effectiveness of our existing products and to design and develop innovative products that meet customer requirements for new applications. Furthermore, CTS may engage in activities that develop tooling machinery and equipment for its customers. Costs of molds, dies and other tools used to make products sold for which the company has a contractual guarantee for lump sum reimbursement from the customer are capitalized in other current assets. At December 31, 2013 and 2012, the company recorded $3.1 million and $1.4 million, respectively, within the Consolidated Balance Sheet in other current assets for costs of molds, dies, and other tools for which customer reimbursement is assured.

CTS may, from time to time, partially recover costs related to these activities from the customer. Any reimbursements received from customers are netted against such costs. The total amount received for the years ended December 31, 2013, 2012 and 2011 were $2.1 million, $3.2 million and $2.5 million, respectively.

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

Diluted earnings 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 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 per share. Refer also to Note E, "Earnings Per Share."

**Equity-Based Compensation:** CTS recognizes expense related to the fair value of equity-based compensation awards in the Consolidated Statements of Operations. CTS had stock options and restricted stock units outstanding at December 31, 2013. Refer to Note J, "Equity-Based Compensation."

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 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 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 Operations.

The grant date fair values of our service-based and our performance-based restricted stock units ("RSUs") are the closing price of our common stock on the date of grant. The grant date fair value of our market-based RSUs is determined by using a simulation, or Monte Carlo, approach. Under this approach, stock returns from comparative 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.

Both CTS' stock options and RSUs 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 basis 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 K, "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 recorded from continuing operations was $12.3 million, $11.4 million and $10.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Depreciation expense recorded in discontinued operations was $3.2 million, $5.2 million and $4.5 million for the years ended December 31, 2013, 2012 and 2011, 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 D, "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 I, "Retirement Plans."

**Goodwill and Other Intangible Assets:** CTS tests Goodwill for impairment annually and when an impairment triggering event occurs 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. No impairment was recorded for the years ended December 31, 2013, 2012 and 2011.

CTS tests indefinite-lived intangibles for impairment annually and when an impairment triggering event occurs using a fair value approach at the reporting unit level. No impairment was recorded for the year ended December 31, 2013. For the year ended December 31, 2012, CTS wrote-off $30,000 of in-process research and development costs to the Consolidated Statements of Operations as the project related to in-process research and development costs was eliminated.

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 customer list intangibles acquired in the Tusonix, Inc. ("Tusonix"), Fordahl S.A. ("Fordahl"), Valpey-Fisher Corporation ("Valpey-Fisher") and D&R Technologies, LLC ("D&R") acquisitions, which are amortized using a 150% 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. For the year ended December 31, 2013, CTS wrote-off approximately $0.2 million of customer-based intangibles to the Consolidated Statements of Operations. Refer to Note F, "Intangible Assets," and Note D, "Fair Value Measurements."

**Financial Instruments:** CTS' financial instruments consist primarily of cash and cash equivalents, accounts receivable and payable, long-term debt, and interest rate swaps. CTS' long-term debt consists of a revolving credit facility. The carrying values for cash and cash equivalents, and accounts receivable and payable and approximate fair value based on the short-term maturities of these instruments. CTS estimated the fair value of its long-term debt to be $75.0 million at December 31, 2013, 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. The fair value of CTS' interest rate swaps are measured using a market approach which uses current industry information. There is a readily determinable market and these swaps are classified within level 2 of the fair value hierarchy. Refer to Note D, "Fair Value Measurements."

**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. Amortization expense totaled $0.2 million in 2013, $0.2 million in 2012, and $0.2 million in 2011 and is included in interest expense in the accompanying Consolidated Statements of Operations.

**Segment Reporting:** In accordance with the guidance included in Accounting Standards Codification ASC 280, "Segment Reporting," the Company reports as one segment. CTS is in one business, which is the Components and Sensors business. The products and services, customer base, distribution channel, manufacturing process, procurement and economic characteristics are similar throughout all of CTS' operations.

**Treasury Stock:** CTS uses the cost method to account for its common stock repurchases. CTS purchased 419,190 and 1,105,848 shares of its common stock for approximately $6.2 million and $10.4 million during the years ended December 31, 2013 and 2012, respectively. Refer to Note L, "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 2013, resulting in the sale of the EMS business.

**Recent Accounting Pronouncements**

ASU 2013-05, "*Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*"

In March 2013, the FASB issued Accounting Standards Update 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which requires an entity to release any related cumulative translation adjustment into net income when the entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights). Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This amendment also clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. These provisions are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. CTS is in the process of evaluating the impact of these provisions on the Company's consolidated financial statements. The Company does not expect these provisions to have a material impact on its financial statements.

ASU 2013-07, *"Presentation of Financial Statements – Liquidation Basis of Accounting"*

In April 2013, the FASB issued Accounting Standards Update 2013-07, "Presentation of Financial Statements – Liquidation Basis of Accounting," which contains guidance on applying the liquidation basis of accounting and the related disclosure requirements. Under the ASU, an entity must use the liquidation basis of accounting to present its financial statements when it determines that liquidation is imminent, unless the liquidation is the same as that under the plan specified in an entity's governing documents created at its inception. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective or (b) a plan for liquidation is being imposed by other forces. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. These amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. The provisions of ASU 2013-07 are not expected to have a material impact on its consolidated financial statements.

ASU 2013-10, "*Derivatives and Hedging – Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*"

In July 2013, the FASB issued Accounting Standards Update 2013-10, "Derivatives and Hedging – Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," which permit the Fed Funds Effective Swap Rate (Overnight Interest Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. These amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect these provisions to have a material impact on CTS' financial statements.

ASU 2013-11, *"Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists"*

In July 2013, the FASB issued Accounting Standards Update 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists," which provides guidance on financial statement presentation of an unrecognized tax benefit

(UTB) when an NOL carry-forward, a similar tax loss, or a tax credit carry-forward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. Under this ASU, an entity with an unrecognized tax benefit that is 'not available' or not intended to be used at the reporting date to present the unrecognized tax benefit as a liability that should not be combined with deferred tax assets. Otherwise, the unrecognized tax benefit should be presented as a reduction to the related deferred tax asset. These amendments are effective for public entities for fiscal years beginning after December 15, 2013, and interim periods within those years. Early adoption is permitted. The amendments should be applied prospectively, although retroactive application is permitted. The provisions of ASU 2013-11 are not expected to have a material impact on our consolidated financial statements.

## NOTE B — Discontinued Operations

On October 2, 2013, the company completed the sale of its EMS Business to Benchmark for approximately $75 million in cash. Included were five manufacturing facilities located in Moorpark, CA, Londonderry, NH, Bangkok, Thailand, Matamoros, Mexico and San Jose, CA and approximately 1,000 employees.

The components of the net assets of EMS discontinued operations were:

| (In thousands of dollars) | December 31, 2012 |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Accounts receivable, net | $ 36,816 |
| Inventories, net | 47,800 |
| Current deferred tax asset | 5,785 |
| Other current assets | 2,146 |
| Total current assets | 92,547 |
| Property, plant and equipment, net | 17,680 |
| Goodwill | 500 |
| Other intangibles | 4,960 |
| Other assets | 3,083 |
| Total assets | $118,770 |
| **Current Liabilities** | |
| Accounts payable | $ 29,618 |
| Accrued salaries, wages and vacation | 3,147 |
| Income taxes payable | 634 |
| Other accrued liabilities | 6,428 |
| Total current liabilities | 39,827 |
| Deferred taxes | 1,956 |
| Other liabilities | 437 |
| Total liabilities | 42,220 |
| **Total Net Assets** | **$ 76,550** |

The Condensed Statement of Operations of the EMS discontinued operations is:

| | Year ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2013 | 2012 | 2011 |
| Net sales | $155,055 | $272,437 | $308,649 |
| Cost of goods sold | 142,589 | 262,571 | 288,023 |
| Insurance recovery for business interruption | — | (20,256) | (4,082) |
| Selling, general and administrative expenses | 11,617 | 17,315 | 17,754 |
| Insurance recovery for property damage | — | (1,769) | (6,067) |
| Restructuring and impairment charge | 1,444 | 2,949 | 489 |
| **Operating (loss) / earnings** | (595) | 11,627 | 12,532 |
| Interest (expense) / income, net | (61) | 10 | (11) |
| Other (expense) / income, net | (284) | 861 | 1,500 |
| **(Loss) / earnings before income taxes** | (940) | 12,498 | 14,021 |
| Income tax (benefit) / expense | (162) | 5,657 | 4,317 |
| **Net (Loss)/Earnings from Discontinued Operations** | $ (778) | $ 6,841 | $ 9,704 |

**NOTE C — Acquisitions**

On December 21, 2012, CTS acquired D&R, a privately-held company located in Carol Stream, Illinois and Juarez, Mexico for $63.5 million. D&R is a leading manufacturer of custom designed sensors, switches and electromechanical assemblies primarily serving the automotive light-vehicle market. This acquisition expanded CTS' strategic automotive sensor product platform with new customers and a broader product portfolio. The acquisition also brought new growth opportunities from sensor applications for safety systems and vehicle chassis management. Additionally, D&R brought strong sensor design and development engineering capabilities to complement CTS' world-class engineering team.

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

| | Fair Values |
|---|---|
| ($ in thousands) | At December 21, 2012 |
| Current assets | $13,839 |
| Property, plant and equipment | 8,635 |
| Goodwill | 24,382 |
| Amortizable intangible assets | 20,900 |
| In-process research and development | 550 |
| Other assets | 678 |
| Fair value of assets acquired | 68,984 |
| Less fair value of liabilities acquired | (5,484) |
| Net cash paid | $63,500 |

Included in current assets is the fair value of accounts receivable of $7,693,000. Goodwill recorded in connection with the above acquisition is primarily attributable to the synergies expected to arise after the Company's acquisition of the business and the assembled workforce of the acquired business. The goodwill is deductible for tax purposes over a 15-year period.

The D&R acquisition is accounted for using the acquisition method of accounting whereby the total purchase price is allocated to tangible and intangible assets and liabilities based on the fair market values on the date of acquisition. CTS determines the purchase price allocations on the acquisition based on estimates of the fair values of the assets acquired and liabilities assumed. During the year ended December 31, 2013, the Company recorded a measurement period adjustment as a result of additional information provided by CTS' external valuation consultants. This adjustment reduced customer list/ relationships intangible assets by $6,228,000, increased other intangibles by $10,255,000 and increased other indefinite lived intangible assets increased by $50,000. Other measurement period adjustments were recorded for accounts receivable and accounts payable to reflect fair market values on the date of acquisition, which resulted in a decrease of $260,000 and an increase of $3,000, respectively. In addition, other accrued liabilities increased by $11,000. The net effect of these measurement period adjustments reduced goodwill by $3,803,000. The allocations for goodwill and other intangible assets are

prepared by the Company's management utilizing a third-party valuation report and other tools available to the Company, including review with the acquired company's management and historical data from the Company's prior acquisitions. The allocations pertaining to goodwill and other intangible assets were finalized in the fourth quarter of 2013.

The following table summarizes the net sales and earnings before income taxes of D&R that is included in CTS' Consolidated Statements of Operations of continuing operations for the twelve months ended December 31, 2013 and December 31, 2012:

| ($ in thousands) | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Net Sales | $49,248 | $ 280 |
| Earnings before income taxes | $ 2,599 | $(1,168) |

On January 23, 2012, CTS acquired 100% of the common stock of 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 expanded CTS' technology, and brings strong engineering capabilities and management leadership to support the Company's strategic initiatives. The Valpey-Fisher acquisition was accounted for using the acquisition method of accounting whereby the total purchase price was allocated to tangible and intangible assets and liabilities based on the fair market values on the date of acquisition. CTS determined the purchase price allocations on the acquisition based on the fair values of the assets acquired and liabilities assumed. CTS finalized the purchase price allocation at December 31, 2012.

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

| | Fair Values |
|---|---|
| ($ in thousands) | At January 23, 2012 |
| Current assets | $ 9,530 |
| Property, plant and equipment | 6,231 |
| Goodwill | 7,665 |
| Amortizable intangible assets | 2,420 |
| In-process research and development | 400 |
| Other assets | 231 |
| Fair value of assets acquired, including $3,578 cash acquired | 26,477 |
| Less fair value of liabilities acquired | (8,210) |
| Net assets acquired | 18,267 |
| Cash acquired | 3,578 |
| Net cash paid | $14,689 |

Included in current assets is the fair value of accounts receivable of $2,479,000. Goodwill recorded in connection with the above acquisition is primarily attributable to the synergies expected to arise after the Company's acquisition of the business and the assembled workforce of the acquired business. None of the goodwill is deductible for tax purposes.

The following table summarizes the net sales and earnings before income taxes of Valpey-Fisher that is included in CTS' Consolidated Statements of Operations since the acquisition date, January 23, 2012, which is included in the Consolidated Statement of Operations of continuing operations for the twelve months ended December 31, 2012:

| ($ in thousands) | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Net Sales | $16,980 | $15,191 |
| Earnings before income taxes | $ (1,132) | $ 1,123 |

The following table summarizes the combined net sales and earnings before income taxes from continuing operations of CTS, D&R and Valpey-Fisher on a pro forma basis as if the D&R and Valpey-Fisher acquisitions had occurred on January 1, 2011:

| ($ in thousands) | December 31, 2012 (Unaudited Proforma) | December 31, 2011 (Unaudited Proforma) |
|---|---|---|
| Net Sales | $355,463 | $343,365 |
| Earnings before income taxes | $ 17,669 | $ 11,776 |

In January 2011, CTS acquired certain assets and assumed certain liabilities of Fordahl, a privately held company located in Brugg, Switzerland. This business was acquired for approximately $2.9 million, net of cash acquired. The assets acquired included inventory, accounts receivable, leasehold improvements, machinery and equipment, and certain intangible assets. 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 Fordahl product line includes high-performance temperature compensated crystal oscillators and voltage controlled crystal oscillators. This product line expanded CTS' frequency product portfolio from clock and crystals to highly-engineered precision ovenized oscillators.

## NOTE D — Fair Value Measurements

U.S. GAAP stipulates 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. As a first step, CTS evaluated certain qualitative factors such as general market, macro-economic conditions, entity-specific events and overall past and projected financial performance of its business operations that could affect CTS' recorded goodwill.

If it is determined in the first step that it is more-likely-than-not that goodwill may be impaired, then a two-step method is applied. 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-income approach and a market approach which uses current industry information. The second step 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 2013, two step testing was performed by the Company's management utilizing a third-party valuation report and other tools available to the Company. As of December 31, 2013, it was concluded that the estimated implied fair value of goodwill exceeded the carrying value. Accordingly, no goodwill impairment was required.

The table below summarizes the assets measured on a non-recurring basis that were recorded as of December 31, 2013 and the losses recorded during the period ended December 31, 2013 on those assets:

| ($ in thousands) Description | Carrying Value at December 31, 2013 | 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, 2013 |
|---|---|---|---|---|---|
| Goodwill | $32,047 | $— | $— | $32,047 | $ — |
| Intangible assets, other than goodwill | 199 | — | — | 199 | (233) |
| Long-lived assets | 11,102 | — | — | 11,102 | (3,592) |

During the second quarter of 2013, CTS initiated the June 2013 restructuring plan which impacted certain locations. This was considered a triggering event and the Company performed an impairment analysis for the impacted intangibles and long-lived assets. The resulting intangible impairment loss related to customer based intangibles. The fair value of the intangible and long-lived 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. CTS recorded an impairment charge of approximately $3,825,000 for the twelve months ended December 31, 2013. The impairment charge was recorded under "Restructuring and Impairment Charge" on the Company's Consolidated Statements of Operations. Of the $3,825,000, $534,000 was included in Discontinued Operations.

The table below summarizes the recurring financial liability that was measured at carrying value, which approximates fair value on a recurring basis as of December 31, 2013:

| ($ in thousands) Description | Carrying Value at December 31, 2013 | Quo(ted 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, 2013 |
|---|---|---|---|---|---|
| Interest rate swap | $996 | $— | $996 | $— | $322 |

The fair value of CTS' interest rate swaps were measured using a market approach which uses current industry information. There is a readily determinable market and these swaps are classified within level 2 of the fair value hierarchy. Of the $996,000, $392,000 of the fair value of these swaps is classified as a current liability and the remaining $604,000 is classified as a non-current liability on CTS' Consolidated Balance Sheets.

The table below summarizes the recurring financial liability that was measured at carrying value, which approximates fair value on a recurring basis as of December 31, 2012:

| ($ in thousands) Description | Carrying Value at December 31, 2012 | 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, 2012 |
|---|---|---|---|---|---|
| Interest rate swap | $ 1,607 | $— | $1,607 | $— | $— |

The fair value of CTS' interest rate swaps were measured using a market approach which uses current industry information. There is a readily determinable market and these swaps are classified within level 2 of the fair value hierarchy. $271,000 of the fair value of these swaps is classified as a current liability and the remaining $1,336,000 is classified as a non-current liability on CTS' Consolidated Balance Sheets.

The table below provides a reconciliation of the recurring financial liability related to interest rate swaps:

| ($ in thousands) | Interest Rate Swaps |
|---|---|
| Balance at January 1, 2012 | $ — |
| Total gains/(losses) for the period: | |
| Included in earnings | — |
| Included in other comprehensive income | (1,607) |
| Balance at January 1, 2013 | $(1,607) |
| Total gains/(losses) for the period: | |
| Included in earnings | 322 |
| Included in other comprehensive income | 289 |
| Balance at December 31, 2013 | $ (996) |

CTS' long-term credit consists of a revolving credit facility. There is a readily determinable market for CTS' revolving credit debt and it is classified within Level 2 of the fair value hierarchy as the market is not deemed to be active. The fair value of long-term debt was measured using a market approach which uses current industry information and approximates carrying value.

### NOTE E — Earnings Per Share

The table below provides a reconciliation of the numerator and denominator of the basic and diluted earnings per share ("EPS") computations. Basic earnings per share is calculated using the weighted average number of common shares outstanding as the denominator and net earnings as the numerator. Diluted earnings 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 per share.

The calculations below provide net (loss)/earnings from continuing operations, weighted average common shares outstanding, and the resultant earnings per share from continuing operations for both basic and diluted EPS for the years ended December 31, 2013, 2012, and 2011.

| ($ in thousands, except per share amounts) | Net Earnings (Numerator) | Shares (In thousands) (Denominator) | Per Share Amount |
|---|---|---|---|
| **2013** | | | |
| **Basic EPS from continuing operations** | $ 1,997 | 33,601 | $0.06 |
| **Effect of dilutive securities:** | | | |
| **Equity-based compensation plans** | — | 648 | |
| **Diluted EPS from continuing operations** | $ 1,997 | 34,249 | $0.06 |
| **2012** | | | |
| Basic EPS from continuing operations | $13,492 | 33,922 | $0.40 |
| Effect of dilutive securities: | | | |
| Equity-based compensation plans | — | 601 | |
| Diluted EPS from continuing operations | $13,492 | 34,523 | $0.39 |
| **2011** | | | |
| Basic EPS from continuing operations | $11,263 | 34,321 | $0.33 |
| Effect of dilutive securities: | | | |
| Equity-based compensation plans | — | 685 | |
| Diluted EPS from continuing operations | $11,263 | 35,006 | $0.32 |

The following table shows the securities that could potentially dilute EPS in the future, but have been excluded from the 2013, 2012, and 2011 dilutive earnings 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, **2013** | 2012 | 2011 |
|---|---|---|---|
| Stock options | — | 346 | 539 |

**NOTE F — Intangible Assets**

CTS has the following intangible assets as of December 31:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| ($ in thousands) | **Gross Carrying Amount** | **Accumulated Amortization** | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Customer lists/ relationships | **$ 51,804** | **$(21,490)** | $ 63,774 | $(25,084) |
| Patents | **10,319** | **(10,319)** | 10,319 | (10,319) |
| Other intangibles | **12,270** | **(2,492)** | 12,090 | (672) |
| Total | **74,393** | **(34,301)** | 86,183 | (36,075) |
| In-process research & development | **690** | **—** | 870 | — |
| Goodwill | **32,047** | **—** | 32,547 | — |
| Total net intangible assets | **$107,130** | **$(34,301)** | $119,600 | $(36,075) |

The following table reconciles the beginning and ending balances of CTS' goodwill for the periods ended December 31, 2013 and December 31, 2012:

| ($ in thousands) | **Total** |
|---|---|
| Balance at January 1, 2012 | $ 500 |
| Valpey-Fisher acquisition | 7,665 |
| D&R acquisition | 24,382 |
| Balance at December 31, 2012 | 32,547 |
| 2013 reduction – sale of EMS business | (500) |
| Balance at December 31, 2013 | $32,047 |

During the year ended December 31, 2013, CTS retrospectively adjusted the provisional amounts recognized at the acquisition date for the D&R acquisition in December 2012. Customer lists/relationships were reduced by $6,228,000, Other intangibles were increased by $10,255,000, in-process research and development were increased by $50,000 and Goodwill was reduced by $3,803,000 as a result of additional information provided by CTS' third-party consultants. The D&R allocations pertaining to goodwill and other intangible assets were finalized in the fourth quarter of 2013. See Note C "Acquisitions," for further discussion.

CTS recorded amortization expense from continuing operations of $5.0 million, $2.1 million, and $1.7 million for

the years ended December 31, 2013, 2012, and 2011, respectively. The weighted average remaining amortization period for the amortizable intangible assets is 11.7 years. The weighted average remaining amortization period for customer lists/relationships is 12.7 years and for the other intangibles is 8.5 years. CTS estimates remaining amortization expense of $4.2 million in 2014, $3.9 million in 2015, $3.6 million in 2016, $3.6 million in 2017, $3.5 million in 2018 and $21.3 million thereafter.

The intangibles related to EMS were part of the sale to Benchmark. Of the net intangibles, excluding goodwill and in-process research and development at December 2012, $5.0 million was related to EMS. Of the goodwill at December 31, 2012, $0.5 million related to EMS. CTS recorded amortization expense in discontinued operations of $0.7 million, $0.9 million, and $0.9 million for the years ended December 31, 2013, 2012, and 2011, respectively.

### NOTE G — Notes Payable

CTS had line of credit arrangements of $1.6 million and $14.4 million at December 31, 2013 and 2012, respectively. No amount was outstanding at December 31, 2013 and 2012. These arrangements are generally subject to annual renewal and renegotiation, have no financial covenants, and may be withdrawn at the banks' option. All the line of credit arrangements at December 31, 2013 are unsecured. The majority of the line of credit arrangements at December 31, 2012 were unsecured. However, one line of credit for $0.7 million was 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 4.25% in 2013 and 2012.

### NOTE H — Debt

On January 10, 2012, CTS amended its unsecured revolving credit facility, originally entered into on November 18, 2010. 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 changes, the amendment reduced the applicable margin by 25 basis points, increased the total consideration the Company is permitted to pay for non-U.S.-based acquisitions, and extended the term of the credit facility through January 10, 2017.

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

| ($ in thousands) | **2013** | 2012 |
|---|---|---|
| Revolving credit facility, weighted-average interest rate of 1.9% (2013) and 1.8% (2012), due in 2017 | **$75,000** | $153,500 |
| Less current maturities | **—** | — |
| Total long-term debt | **$75,000** | $153,500 |

There was $75 million outstanding under the revolving credit facility at December 31, 2013 and $153.5 million at December 31, 2012. The Company had $122.4 million available under the revolving credit facility at December 31, 2013, net of standby letters of credit of $2.6 million, and $43.9 million available at December 31, 2012, net of standby letters of credit of $2.6 million. Interest rates on the revolving credit facility 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 facility. The commitment fee varies based on the quarterly leverage ratio and was 0.30 percent per annum at December 31, 2013. The revolving credit facility requires, among other things, that CTS comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit facility. CTS was in compliance with all debt covenants at December 31, 2013. The revolving credit facility 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 credit facility 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.

CTS uses interest rate swaps to convert a portion of the line of credit's variable rate of interest into a fixed rate. During the second quarter of 2012, CTS entered into four

separate interest rate swap agreements to fix interest rates on $50 million of long-term debt for the periods January 2013 to January 2017. In the third quarter of 2012, CTS entered into four separate interest rate swap agreements to fix interest rates on $25 million of long-term debt for the periods January 2013 to January 2017. The difference to be paid or received under the terms of the swap agreements, will be recognized as an adjustment to interest expense for the related line of credit when settled.

These swaps are treated as cash flow hedges, and consequently, the changes in fair value were recorded in Other Comprehensive Income. An unrealized gain before tax of approximately $289,000 was recorded in Other Comprehensive Earnings/(Loss) for the year ended December 31, 2013. An unrealized loss of approximately $1,607,000 was recorded in Other Comprehensive Earnings/(Loss) for the year ended December 31, 2012. CTS also reclassed approximately $322,000 of realized loss out of other comprehensive income to interest expense for the year ended December 31, 2013. No realized amounts were reclassed out of other comprehensive income to interest expense for the year ended December 31, 2012. Approximately $392,000 was recorded as a current liability and $604,000 recorded as a non-current liability in Other Long-term Obligations on the Consolidated Balance Sheets at December 31, 2013. Approximately $271,000 was recorded as a current liability and $1,336,000 was recorded as a non-current liability in Other Long-term Obligations on the Consolidated Balance Sheets at December 31, 2012. The balance recorded as a current liability is expected to be reclassified into earnings in 2014 based on the prevailing interest rate at December 31, 2013.

As a result of the use of these derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors. CTS' established policies and procedures for mitigating credit risk on principal transactions include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties.

## NOTE I — Retirement Plans

### Defined Benefit and Other Postretirement Benefit Plans

CTS has a number of noncontributory defined benefit pension plans ("Pension Plans") covering approximately 13% 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 projected 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 dates for the Pension Plans for the Company's domestic and foreign locations was December 31, 2013 and 2012. The following table provides a reconciliation of benefit obligation, plan assets, and the funded status of the Pension Plans domestic and foreign locations plan at that measurement dates.

| ($ in thousands) | Domestic Pension Plans 2013 | Domestic Pension Plans 2012 | Foreign Pension Plans 2013 | Foreign Pension Plans 2012 |
|---|---|---|---|---|
| Accumulated benefit obligation | **$264,828** | $269,657 | **$15,150** | $15,207 |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at January 1 | **$274,497** | $253,574 | **$16,220** | $14,335 |
| Service cost | **2,435** | 2,735 | **110** | 125 |
| Interest cost | **11,046** | 11,935 | **536** | 571 |
| Benefits paid | **(13,526)** | (17,106) | **(1,297)** | (661) |
| Actuarial (gain)/ loss | **(5,473)** | 23,359 | **295** | 1,190 |
| (Gain)/loss due to curtailment | **(4,151)** | — | **—** | — |
| Foreign exchange impact and other | **—** | — | **163** | 660 |
| Projected benefit obligation at December 31 | **$264,828** | $274,497 | **$16,027** | $16,220 |
| Change in plan assets: | | | | |
| Assets at fair value at January 1 | **$265,622** | $248,630 | **$13,369** | $11,476 |
| Actual return on assets | **62,012** | 30,067 | **209** | 456 |
| Company contributions | **103** | 4,031 | **2,307** | 1,563 |
| Benefits paid | **(13,526)** | (17,106) | **(1,297)** | (661) |
| Foreign exchange impact and other | **—** | — | **279** | 535 |
| Assets at fair value at December 31 | **$314,211** | $265,622 | **$14,867** | $13,369 |
| Funded status (plan assets less projected benefit obligations) | **$ 49,383** | $ (8,875) | **$ (1,160)** | $ (2,851) |

The measurement dates for the other post retirement plan were December 31, 2013 and 2012. The following table provides a reconciliation of benefit obligation, plan assets, and the funded status of the other post retirement plan at that measurement dates.

| ($ in thousands) | Other Postretirement Benefit Plan 2013 | Other Postretirement Benefit Plan 2012 |
|---|---|---|
| Accumulated benefit obligation | **$ 4,916** | $ 5,665 |
| Change in projected benefit obligation: | | |
| Projected benefit obligation at January 1 | **$ 5,666** | $ 5,366 |
| Service cost | **7** | 9 |
| Interest cost | **223** | 255 |
| Actuarial (gain)/loss | **(798)** | 226 |
| Benefits paid | **(182)** | (190) |
| Projected benefit obligation at December 31 | **$ 4,916** | $ 5,666 |
| Change in plan assets: | | |
| Assets at fair value at January 1 | **$ —** | $ — |
| Actual return on assets | **—** | — |
| Company contributions | **182** | 190 |
| Benefits paid | **(182)** | (190) |
| Other | **—** | — |
| Assets at fair value at December 31 | **$ —** | $ — |
| Funded status (plan assets less projected benefit obligations) | **$(4,916)** | $(5,666) |

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

| ($ in thousands) | Domestic Pension Plans 2013 | Domestic Pension Plans 2012 | Foreign Pension Plans 2013 | Foreign Pension Plans 2012 |
|---|---|---|---|---|
| Prepaid pension asset | **$55,839** | $ — | **$ 557** | $ — |
| Other accrued liabilities | **(4,814)** | (967) | **—** | — |
| Other long-term obligations | **(1,642)** | (7,908) | **(1,717)** | (2,851) |
| | **$49,383** | $(8,875) | **$(1,160)** | $(2,851) |

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

| ($ in thousands) | **Other Postretirement Benefit Plan** 2013 | **Other Postretirement Benefit Plan** 2012 |
|---|---|---|
| Other accrued liabilities | **$ (341)** | $ (361) |
| Other long-term obligations | **(4,575)** | (5,305) |
| | **$(4,916)** | $(5,666) |

CTS has also recorded the following amounts to Accumulated Other Comprehensive Loss for the domestic and foreign pension plans, net of tax:

| | Domestic Pension Plans | | | Foreign Pension Plans | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Unrecognized Loss | Prior Service Cost | Total | Unrecognized Loss | Prior Service Cost | Total |
| Balance at January 1, 2012 | $110,801 | $1,046 | $111,847 | $3,632 | $— | $3,632 |
| Amortization of retirement benefits, net of tax | (3,684) | (367) | (4,051) | (236) | — | (236) |
| Settlements and curtailments | (171) | — | (171) | — | — | — |
| Net actuarial gain/(loss) | 8,987 | — | 8,987 | 922 | — | 922 |
| Foreign exchange impact | — | — | — | 174 | — | 174 |
| Balance at January 1, 2013 | $115,933 | $ 679 | $116,612 | $4,492 | $— | $4,492 |
| Amortization of retirement benefits, net of tax | (4,509) | (277) | (4,786) | (298) | — | (298) |
| Settlements and curtailments | (428) | (402) | (830) | — | — | — |
| Net actuarial gain/(loss) | (31,778) | — | (31,778) | 451 | — | 451 |
| Foreign exchange impact | — | — | — | (3) | — | (3) |
| Balance at December 31, 2013 | $ 79,218 | $ — | $ 79,218 | $4,642 | $— | $4,642 |

CTS has also recorded the following amounts to Accumulated Other Comprehensive loss for other postretirement benefit plan, net of tax:

| | Other Postretirement Benefit Plan | | |
|---|---|---|---|
| ($ in thousands) | Unrecognized (Gain) | Prior Service Cost | Total |
| Balance at January 1, 2012 | $(423) | $— | $(423) |
| Amortization of retirement benefits, net of tax | 24 | — | 24 |
| Net actuarial gain/(loss) | 138 | — | 138 |
| Balance at January 1, 2013 | $(261) | $— | $(261) |
| Amortization of retirement benefits, net of tax | — | — | — |
| Net actuarial gain/(loss) | (494) | — | (494) |
| Balance at December 31, 2013 | $(755) | $— | $(755) |

CTS expects to recognize, on a pre-tax basis, approximately $5.9 million of losses in 2014 related to its Pension Plans. CTS does not expect to recognize any significant amounts of the Other Postretirement Benefit Plan unrecognized amounts in 2014.

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) | 2013 | 2012 |
|---|---|---|
| Projected benefit obligation | $10,098 | $22,471 |
| Accumulated benefit obligation | 4,807 | 21,022 |
| Fair value of plan assets | 1,923 | 13,369 |

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

| | Domestic Pension Plans | | | Foreign Pension Plans | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Service cost | $ 2,435 | $ 2,735 | $ 2,749 | $ 110 | $ 125 | $ 141 |
| Interest cost | 11,046 | 11,935 | 12,246 | 536 | 571 | 598 |
| Expected return on plan assets [1] | (20,217) | (21,506) | (23,665) | (474) | (445) | (573) |
| Amortization of unrecognized: | | | | | | |
| Prior service cost | 498 | 605 | 611 | — | — | — |
| Loss/(gain) | 7,245 | 6,062 | 4,164 | 378 | 296 | 275 |
| Additional cost due to early retirement | 692 | 282 | 670 | — | — | — |
| Curtailment loss | 651 | — | — | — | — | — |
| Net expense/ (income) | $ 2,350 | $ 113 | $ (3,225) | $ 550 | $ 547 | $ 441 |
| Weighted-average actuarial assumptions [2] | | | | | | |
| Benefit obligation assumptions: | | | | | | |
| Discount rate | 4.84% | 4.06% | 4.91% | 3.85% | 3.46% | 3.93% |
| Rate of compensation increase | 3.00% | 3.00% | 3.00% | 0.56% | 0.69% | 0.77% |
| Pension expense/ (income) assumptions: | | | | | | |
| Discount rate | 4.06% | 4.91% | 5.51% | 3.46% | 3.86% | 4.38% |
| Expected return on plan assets [1] | 7.75% | 8.00% | 8.50% | 3.10% | 3.00% | 3.60% |
| Rate of compensation increase | 3.00% | 3.00% | 4.18% | 0.69% | 0.72% | 0.72% |

(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.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Net postretirement expense for the years ended on December 31 include the following components:

| ($ in thousands) | Other Postretirement Benefit Plan 2013 | 2012 | 2011 |
|---|---|---|---|
| Service cost | **$ 7** | $ 9 | $ 15 |
| Interest cost | **223** | 255 | 287 |
| Amortization of unrecognized: | | | |
| Loss/(gain) | **—** | (40) | (5) |
| Net (income)/expense | **$ 230** | $ 224 | $ 297 |
| Weighted-average actuarial assumptions (1) | | | |
| Benefit obligation assumptions: | | | |
| Discount rate | **4.84%** | 4.06% | 4.91% |
| Rate of compensation increase | **0%** | 0% | 0% |
| Pension income/postretirement Expense assumptions: | | | |
| Discount rate | **4.06%** | 4.91% | 5.51% |
| Rate of compensation increase | **0%** | 0% | 0% |

*(1) 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.*

In the fourth quarter of 2013, a modification was made to the CTS Corporation Domestic Pension Plans freezing benefits for all salaried and non-bargaining unit hourly participants effective December 31, 2013. We recorded a curtailment charge of $0.7 million for the year ended December 31, 2013 in conjunction with the freeze.

The discount rate utilized to estimate CTS' pension and postretirement obligations is based on market conditions at December 31, 2013, 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 2013 pension income and postretirement expense for CTS' pension and postretirement plans is based on market conditions at December 31, 2012 and is the interest rate used to estimate interest incurred on the outstanding projected benefit obligations during the period.

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, 2013 and 2012, and target allocation for 2014 by asset category are as follows:

| **Asset Category** | Target Allocations 2014 | Percentage of Plan Assets at December 31, **2013** | 2012 |
|---|---|---|---|
| Equity securities (1) | 60% | **67%** | 62% |
| Debt securities | 25% | **20%** | 24% |
| Other | 15% | **13%** | 14% |
| **Total** | 100% | **100%** | 100% |

*(1) Equity securities include CTS common stock in the amounts of approximately $29.0 million (9% of total plan assets) at December 31, 2013 and approximately $15.6 million (6% of total plan assets) at December 31, 2012.*

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) | **2013** | 2012 |
|---|---|---|
| Equity securities — U.S. holdings(1) | **$175,293** | $143,215 |
| Equity securities — non-U.S. holdings (1) | **16,866** | 29,153 |
| Equity funds — International LP (1) | **15,711** | — |
| Equity funds — U.S. LP (1) | **12,454** | — |
| Corporate Bonds (2) | **50,199** | 51,009 |
| Cash and cash equivalents (3) | **9,994** | 10,827 |
| Debt securities issued by U.S., state and local governments (5) | **10,487** | 10,117 |
| Partnerships (7) | **9,010** | 6,330 |
| Long/short equity-focused hedge funds(6) | **11,147** | 9,937 |
| International hedge funds (4) | **10,958** | 10,395 |
| Mortgage-backed securities (8) | **5,176** | 6,139 |
| Fixed annuities (9) | **1,620** | 1,681 |
| Other asset-backed securities | **163** | 188 |
| Total fair value of plan assets | **$329,078** | $278,991 |

The fair values at December 31, 2013 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) | $175,293 | $ — | $ — | $175,293 |
| Equity securities – non-U.S. holdings(1) | 16,866 | — | — | 16,866 |
| Equity funds – International LP (1) | — | 15,711 | — | 15,711 |
| Equity funds – U.S. LP(1) | — | 12,454 | — | 12,454 |
| Corporate Bonds (2) | — | 50,199 | — | 50,199 |
| Cash and cash equivalents (3) | 9,994 | — | — | 9,994 |
| Debt securities issued by U.S. and U.K., state and local governments (5) | — | 10,487 | — | 10,487 |
| Partnerships (7) | — | — | 9,010 | 9,010 |
| Long/short equity-focused hedge funds (6) | — | — | 11,147 | 11,147 |
| International hedge funds (4) | — | — | 10,958 | 10,958 |
| Mortgage-backed securities (8) | — | 5,176 | — | 5,176 |
| Fixed annuity contracts(9) | — | — | 1,620 | 1,620 |
| Other asset-backed securities | — | 163 | — | 163 |
| **Total** | **$202,153** | **$94,190** | **$32,735** | **$329,078** |

The fair values at December 31, 2012 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) | $143,215 | $ — | $ — | $143,215 |
| Equity securities – non-U.S. holdings(1) | 29,153 | — | — | 29,153 |
| Corporate Bonds (2) | — | 51,009 | — | 51,009 |
| Cash and cash equivalents (3) | 10,827 | — | — | 10,827 |
| International hedge fund (4) | — | — | 10,395 | 10,395 |
| Debt securities issued by U.S., state and local governments (5) | — | 10,117 | — | 10,117 |
| Long/short equity-focused hedge fund (6) | — | — | 9,937 | 9,937 |
| Partnerships (7) | — | — | 6,330 | 6,330 |
| Mortgage-backed securities (8) | — | 6,139 | — | 6,139 |
| Fixed annuity contracts(9) | — | — | 1,681 | 1,681 |
| Other asset-backed securities | — | 188 | — | 188 |
| **Total** | **$183,195** | **$67,453** | **$28,343** | **$278,991** |

(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 short-term investment funds.

(4) *This hedge fund allocates its capital across several direct hedge-fund organizations. This fund invests with hedge funds that employ "non-directional" strategies. These strategies do not require the direction of the markets to generate returns. The majority of these hedge funds generate returns by the occurrence of key events such as bankruptcies, mergers, spin-offs, etc.*

(5) *Comprised of investment grade securities that are backed by the U.S., state or local governments.*

(6) *The hedge fund manager utilizes fundamental research and invests in equities both long (seeking price appreciation) and short (expectation that the stock will fall) instruments.*

(7) *Comprised of partnerships that invest in various U.S. and international industries.*

(8) *Comprised of investment grade securities in which approximately $1.1 million and $4.9 million are backed by the U.S. government for the years ended December 31, 2013 and December 31, 2012, respectively, and the remainder by commercial real estate.*

(9) *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 international hedge fund assets within the fair value hierarchy:

| ($ in thousands) | Amount |
|---|---|
| Fair value of Level 3 hedge fund assets at December 31, 2011 | $ — |
| Capital contributions | **10,000** |
| Realized and unrealized gain | 395 |
| Fair value of Level 3 hedge fund assets at December 31, 2012 | $10,395 |
| Capital contributions | — |
| Realized and unrealized gain | 563 |
| Fair value of Level 3 hedge fund assets at December 31, 2013 | $10,958 |

The table below reconciles the Level 3 long/short equity-focused hedge fund assets within the fair value hierarchy:

| ($ in thousands) | Amount |
|---|---|
| Fair value of Level 3 hedge fund assets at December 31, 2011 | $ — |
| Capital contributions | 10,000 |
| Realized and unrealized loss | (63) |
| Fair value of Level 3 hedge fund assets at December 31, 2012 | $ 9,937 |
| Capital contributions | 4,650 |
| Capital distributions | (4,697) |
| Realized and unrealized gain | 1,257 |
| Fair value of Level 3 hedge fund assets at December 31, 2013 | $11,147 |

The hedge fund manager reviews the net asset values of the underlying portfolio of hedge funds and also the hedge fund positions within the portfolio. If the positions cannot be exited within one year these funds are considered level 3 investments within the fair value hierarchy.

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, 2012 | **$ 3,586** |
| Capital contributions | **3,763** |
| Net ordinary gain attributable to partnership assets | **2** |
| Realized and unrealized gain | **688** |
| Capital distributions | **(1,709)** |
| Fair value of Level 3 partnership assets at December 31, 2012 | **6,330** |
| Capital contributions | **2,462** |
| Net ordinary gain attributable to partnership assets | **—** |
| Realized and unrealized gain | **822** |
| Capital distributions | **(604)** |
| Fair value of Level 3 partnership assets at December 31, 2013 | **$ 9,010** |

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, 2012 | $1,538 |
| Purchases | — |
| Benefits paid | (106) |
| Net gain | **249** |
| Fair value of Level 3 fixed annuity contracts at December 31, 2012 | **1,681** |
| Purchases | — |
| Benefits paid | (108) |
| Net gain | **47** |
| Fair value of Level 3 fixed annuity contracts at December 31, 2013 | **$1,620** |

The expected contributions to be made by CTS to the domestic and foreign pension plans during 2014 are $4.8 million and $7.1 million, respectively. The expected contributions to be made by CTS to the other postretirement benefit plan during 2014 are $0.3 million.

### Estimated Future Benefit Payments

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

| ($ in thousands) | Domestic Pension Plans | Foreign Pension Plans | Other Postretirement Benefit Plan |
|---|---|---|---|
| 2014 | $19,820 | $ 478 | $ 341 |
| 2015 | 16,033 | 466 | 340 |
| 2016 | 16,335 | 618 | 337 |
| 2017 | 16,582 | 470 | 333 |
| 2018 | 16,976 | 620 | 328 |
| Thereafter | 84,843 | 4,383 | 1,527 |

### 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 $4.7 million in 2013, $5.1 million in 2012, and $4.5 million in 2011.

### NOTE J — Equity-Based Compensation

At December 31, 2013, CTS had four equity-based compensation plans: 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 CTS' 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 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 Operations for the years ending December 31, 2013, 2012, and 2011 relating to equity-based compensation plans:

| | Year ended December 31 | | |
|---|---|---|---|
| ($ in thousands) | **2013** | 2012 | 2011 |
| Restricted stock units | **$4,219** | $4,099 | $3,746 |

The total tax benefit related to the equity-based compensation plans recognized in income is approximately $1.6 million for the year ended December 31, 2013 and $1.6 million and $1.5 million for the years ended December 31, 2012 and 2011, respectively.

The following table summarizes the status of these plans as of December 31, 2013:

| | 2009 Plan | 2004 Plan | 2001 Plan |
|---|---|---|---|
| Awards originally available | 3,400,000 | 6,500,000 | 2,000,000 |
| Stock options outstanding | — | 104,400 | 18,600 |
| Restricted stock units outstanding | 529,065 | 101,223 | — |
| Options exercisable | — | 104,400 | 18,600 |
| Awards available for grant | 1,751,452 | 262,686 | — |

### 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 Company's common 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, 2013, and changes during the year then ended, is presented below:

| ($ in thousands except per unit amounts) | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2013 | **447,250** | **$10.87** | | |
| Exercised | **(285,950)** | **$10.31** | | |
| Expired | **(37,300)** | **$ 8.94** | | |
| Forfeited | **(1,000)** | **$ 9.78** | | |
| Outstanding at December 31, 2013 | **123,000** | **$12.78** | **1.5 years** | **$877** |
| Exercisable at December 31, 2013 | **123,000** | **$12.78** | **1.5 years** | **$877** |

The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012, and 2011 were $0.6 million, $0.3 million, and $0.2 million, respectively. No stock options were granted during the years ended December 31, 2013, 2012 or 2011.

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, 2013:

| | Options Outstanding and Exercisable | | |
|---|---|---|---|
| Range of Exercise Prices | Number Outstanding and Exercisable at 12/31/13 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
| **$11.04 - 11.11** | **49,900** | **0.98** | **$11.08** |
| **13.68 - 14.70** | **73,100** | **1.82** | **13.94** |

### Service-Based Restricted Stock Units

Service-based RSUs entitle the holder to receive one share of common stock for each unit when the unit vests. RSUs are issued to officers, key employees and non-employee directors as compensation. Generally, the RSUs vest over a three-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 common stock on the grant date.

A summary of the status of RSUs as of December 31, 2013, and changes during the year then ended is presented below:

| ($ in thousands except per unit amounts) | Units | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2013 | **751,798** | **$ 9.82** | | |
| Granted | **377,000** | **10.97** | | |
| Converted | **(330,313)** | **10.08** | | |
| Forfeited | **(168,197)** | **9.88** | | |
| Outstanding at December 31, 2013 | **630,288** | **$10.36** | **10.1 years** | **$12,549** |
| Convertible at December 31, 2013 | **260,723** | **$ 9.38** | **19.9 years** | **$ 5,191** |

The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2013, 2012, and 2011 was $10.97, $9.83, and $11.13, respectively. The total intrinsic value of RSUs converted during the years ended December 31, 2013, 2012, and 2011 was $4.5 million, $2.7 million, and $3.1 million, respectively.

A summary of the nonvested RSUs as of December 31, 2013, and changes during the year then ended, is presented below:

| | RSUs | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2013 | 534,875 | $ 9.99 |
| Granted | 377,000 | 10.97 |
| Vested | (374,113) | 9.97 |
| Forfeited | **(168,197)** | **9.88** |
| Nonvested at December 31, 2013 | **369,565** | **11.05** |

The total fair value of RSUs vested during the years ended December 31, 2013 and 2012 was approximately $3.7 million and $2.6 million, respectively. CTS recorded compensation expense of approximately $2.9 million, $2.9 million and $2.4 million related to service-based RSUs during the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, there was $1.5 million of unrecognized compensation cost related to nonvested 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 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, and as a result, 49,320 units were awarded and vested.

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. No awards were awarded as the targets were not met.

On February 8, 2012, 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 45,850 units in 2014 subject to certification of the 2013 fiscal results by CTS' independent auditors. Vesting is dependant upon CTS' achievement of sales growth targets.

On February 8, 2012, 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 39,300 units in 2014 subject to certification of the 2013 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of certain cash flow targets.

On February 11, 2013, 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 77,700 units in 2016 subject to certification of the 2015 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of sales growth targets.

On February 11, 2013, 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 66,600 units in 2016 subject to certification of the 2015 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of certain cash flow targets.

CTS recorded compensation expense of approximately $674,000, $242,000 and $391,000 related to performance-based RSUs during the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013 there was $647,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period of 1.5 years.

### 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 stockholder return over a three-year period. During the year ended December 31, 2010, 12,500 units were awarded and vested. There were no units awarded in 2011. On July 2, 2012, 8,334 units were awarded and vested.

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 and, as a result, 67,130 units were awarded and vested.

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. On February 11, 2013, 80,940 units were awarded and vested.

On February 8, 2012, 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 45,850 units in 2014. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies' stockholder return rates.

On February 11, 2013, 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 77,700 units in 2016. Vesting is dependent upon CTS total stockholder return relative to 20 enumerated peer group companies' stockholder return rates.

On February 11, 2013, CTS granted a market-based RSU award to an executive officer. Vesting may occur in the range from zero percent to 200% of the target amount of 32,500 units in 2016. Vesting is dependent upon CTS total stockholder return relative to 20 enumerated peer group companies' stockholder return rates.

CTS recorded compensation expense of approximately $666,000, $918,000 and $952,000 related to market-based RSUs during the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, there was approximately $636,000 of unrecognized compensation cost related to market-based RSUs. That cost is expected to be recognized over a weighted average period of 1.5 years.

### Stock Retirement Plan

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

## NOTE K — Income Taxes

Earnings before income taxes from continuing operations consist of the following for the years ended December 31:

| **($ in thousands)** | **2013** | 2012 | 2011 |
|---|---|---|---|
| Domestic | **$ (5,396)** | $ (6,184) | $ (3,773) |
| Non-U.S. | **23,459** | 20,628 | 16,089 |
| Total | **$18,063** | $14,444 | $12,316 |

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

| **($ in thousands)** | **2013** | 2012 | 2011 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 661** | $ 39 | $ 100 |
| State | **671** | 534 | 385 |
| Non-U.S. | **4,804** | 5,839 | 3,572 |
| Total Current | **6,136** | 6,412 | 4,057 |
| Deferred: | | | |
| Federal | **7,091** | (1,423) | (119) |
| State | **877** | (350) | (815) |
| Non-U.S. | **1,962** | (3,687) | (2,070) |
| Total Deferred | **9,930** | (5,460) | (3,004) |
| Total provision for Income Taxes | **$16,066** | $ 952 | $ 1,053 |

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

| ($ in thousands) | 2013 | 2012 |
|---|---|---|
| Postretirement benefits | **$ 1,877** | $ 2,283 |
| Inventory reserves | **1,934** | 3,919 |
| Loss carry-forwards | **36,373** | 46,944 |
| Credit carry-forwards | **15,028** | 14,092 |
| Nondeductible accruals | **6,126** | 7,900 |
| Research expenditures | **28,606** | 26,475 |
| Prepaid charges | **727** | 4,280 |
| Pensions | **—** | 3,512 |
| Other | **5,476** | 7,974 |
| Gross deferred tax assets | **96,147** | 117,379 |
| Depreciation | **11,168** | 12,313 |
| Pensions | **19,177** | — |
| Unrealized foreign exchange gain | **350** | 1,103 |
| Subsidiaries' unremitted earnings | **2,774** | — |
| Other | **696** | 933 |
| Gross deferred tax liabilities | **34,165** | 14,349 |
| Net deferred tax assets | **61,982** | 103,030 |
| Deferred tax asset valuation allowance | **(14,323)** | (13,087) |
| Total net deferred tax assets | **$ 47,659** | $ 89,943 |

Current deferred tax assets of $9.4 million and $18.8 million are included as current assets in the Company's Consolidated Balance Sheets at December 31, 2013 and December 31, 2012, respectively. Long-term deferred tax assets of $38.6 million and $73.1 million are included as other assets in the Company's Consolidated Balance Sheets at December 31, 2013 and December 31, 2012, respectively.

Current deferred tax liability of $0.1 million and $0.1 million are included as a component of "Other accrued liabilities" at December 31, 2013 and December 31, 2012, respectively. Long-term deferred tax liability of $0.2 million and $1.9 million are included as a component of "Other long-term obligations" on CTS' Consolidated Balance Sheets at December 31, 2013 and December 31, 2012, respectively. The current/long-term deferred tax assets and current/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 carry-forward periods.

Generally, the Company assesses that it is more-likely-than-not its net deferred tax assets will be realized during the available carry-forward periods. The Company has determined, however, that a valuation allowance of $14.3 million should be provided for certain deferred tax assets at December 31, 2013. In most cases, the valuation allowances were necessitated by changes in business activity in the underlying jurisdictions, which contributed to the more-likely-than-not conclusion that the deferred tax assets would not be realized. As of December 31, 2013, the $14.3 million valuation allowance includes $5.9 million for certain state net operating loss and credit carry-forwards, $5.5 million for foreign tax credit carry-forwards, and $2.9 million related to foreign deferred tax assets and net operating losses ("NOL"). The $1.2 million net increase in the valuation allowance was primarily related to a $1.6 million increase in the valuation allowance for certain foreign countries including Hong Kong, India, Switzerland and the U.K. due to the change in NOL's associated with current year earnings, a $0.3 million increase in the valuation allowance for certain expiring state tax NOL carry-forwards, offset by a $0.7 million decrease in the valuation allowance associated with certain state tax credit carry-forwards based upon an assessment of the future realization of the related deferred tax asset.

No valuation allowance was recorded in 2013 against the U.S. federal net deferred tax assets including the U.S. federal net operating loss carry-forward asset of $24.4 million expiring in 2021 through 2024. The Company assessed the future realization of these deferred tax assets utilizing taxable income projections for years 2014 through 2021. 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. To date, CTS has also recorded tax benefits on the net operating losses generated in certain foreign

jurisdictions such as China based upon the Company's ability to generate sufficient taxable income within the carry-forward periods provided in each jurisdiction. If it appears that CTS will not generate such taxable income the Company may need to record a valuation allowance against the related deferred tax asset in a future period.

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

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Taxes at the U.S. statutory rate | **35.00%** | 35.00% | 35.00% |
| State income taxes, net of federal income tax benefit | **0.95%** | (0.02)% | (3.00)% |
| Non-U.S. income taxed at rates different than the U.S. statutory rate | **(9.86)%** | (8.99)% | (20.11)% |
| Benefit of scheduled tax credits | **(3.88)%** | —% | (4.38)% |
| Foreign source income | **60.94%** | 5.64% | —% |
| Non-deductible expenses | **(2.42)%** | (0.97)% | (1.32)% |
| Non-U.S. adjustments to valuation allowances | **8.18%** | (5.72)% | (1.03)% |
| Nontaxable foreign gain | **—%** | (11.47)% | —% |
| Change in unrecognized tax benefits | **0.69%** | (8.97)% | 5.63% |
| Other | **(0.65)%** | 2.09% | (2.27)% |
| Effective income tax rate | **88.95%** | 6.59% | 8.52% |

CTS' overall tax rate reflects tax incentives 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 specified periods of time. These tax incentives, unless extended, are scheduled to begin expiring at the end of 2014. During 2012, CTS' Zhongshan, China manufacturing site applied for a new production and technology based income tax incentive. The application was approved during the first quarter of 2013, reducing the 25% China statutory tax rate to 15% for the 2012 through 2014 period. As part of its 2013 tax provision, CTS recognized a $1.1 million tax benefit related to the retroactive enactment of this tax incentive to 2012. In addition, on January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which retroactively extended, among other items, the U.S. research credit and controlled foreign corporation look-through exemption through 2013. The Company recognized a $0.6 million tax benefit in its 2013 provision related to this retroactive law change.

In 2013, CTS recognized approximately $10.5 million of U.S. tax expense relating to current and prior year earnings outside of the U.S. that are not deemed to be indefinitely reinvested. Management intends to continue to permanently reinvest all remaining current and prior earnings in jurisdictions located outside of the U.S. At December 31, 2013, no provision had been made for U.S. federal and state income taxes on approximately $204 million of foreign earnings, which are expected to be permanently reinvested outside of the U.S. 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 complexities such as net operating loss utilizations, potential foreign tax credits, local restrictions on distributions, and treaty implications associated with the related calculation.

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 and various states), and foreign jurisdictions. The Company's open tax years are primarily subject to examination from 2010 through 2012 for all U.S. jurisdictions. The open years for the international tax returns range from 2006 through 2012 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 carry-forwards. Changes may be applied to any open tax years. At December 31, 2013, CTS had ongoing income tax audits in Canada and the U.S. CTS has approximately $4.0 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) | 2013 | 2012 |
|---|---|---|
| Balance at January 1 | **$4,130** | $5,279 |
| Increase related to current year tax positions | **35** | 35 |
| Increase related to prior year tax positions | **35** | 182 |
| Decrease as a result of lapse of statute of limitations | **(36)** | (881) |
| Decrease related to settlements with taxing authorities | **(121)** | (485) |
| Balance at December 31 | **$4,043** | $4,130 |

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 as of the year ended December 31, 2013, there were no significant amounts accrued for interest and/or penalties related to uncertain income tax positions.

## NOTE L — Treasury Stock

Common stock held in treasury totaled 22,249,144 shares with a cost of $317.0 million at December 31, 2013 and 21,829,954 shares with a cost of $311.0 million at December 31, 2012. Approximately 8.4 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 had no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2012, 574,153 shares were repurchased under this program. This repurchase program was completed in July 2012.

In August 2012, CTS' Board of Directors authorized a program to repurchase up to one million shares of its common stock in the open market at a maximum price of $13 per share. In August 2013, CTS' Board of Directors amended the August 2012 share repurchase program by removing the provision that the price per share have a maximum price of $13. The authorization has no expiration. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. Under this program, 419,190 shares and 531,695 shares were repurchased in 2013 and 2012, respectively.

In June 2013, 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. Reacquired shares will be used to support equity-based compensation programs and for other corporate purposes. During 2013, there were no shares repurchased under this program.

## NOTE M — Segments

The Company had two reportable segments: 1) Components and Sensors and 2) EMS until October 2, 2013, the date of the close of the sale of the EMS segment, at which point the Company began operating in a single business segment.

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

| | Year ended December 31, | | |
|---|---|---|---|
| ($ in thousands) | 2013 | 2012 | 2011 |
| **Net Sales** | | | |
| United States | **$223,212** | $122,986 | $ 86,552 |
| Singapore | **13,812** | 14,458 | 15,195 |
| United Kingdom | **28,167** | 30,981 | 31,923 |
| China | **72,509** | 60,864 | 67,616 |
| Canada | **38,061** | 39,186 | 34,094 |
| Czech Republic | **18,117** | 20,213 | 26,014 |
| Other non-U.S. | **15,583** | 15,793 | 18,463 |
| Consolidated net sales | **$409,461** | $304,481 | $279,857 |

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

| | Year ended December 31, | | |
|---|---|---|---|
| ($ in thousands) | 2013 | 2012 | 2011 |
| **Long-Lived Assets** | | | |
| United States | **$36,664** | $45,957 | $30,363 |
| China | **33,277** | 34,615 | 34,904 |
| United Kingdom | **2,004** | 2,669 | 7,153 |
| Singapore | **117** | 1,111 | 3,877 |
| Canada | **478** | 563 | 605 |
| Taiwan | **1,775** | 1,764 | 2,105 |
| Thailand | **—** | 5,839 | 3,625 |
| Switzerland | **19** | 714 | 1,721 |
| Other non-U.S | **535** | 493 | 507 |
| Consolidated long-lived assets | **$74,869** | $93,725 | $84,860 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

## NOTE N — 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 past experience and 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 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. These claims, in the opinion of management, based upon past experience and presently available information, either adequate provision for anticipated costs has been reserved 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 CTS' 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 $0.1 million deductible had substantially covered the costs of repairing and/or replacing the damaged inventory and machinery and equipment. Business interruption insurance had substantially covered the lost sales impact and related fixed costs in 2011. 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 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 CTS' Consolidated Balance Sheets.

As a result of the insurance coverage, in 2011, CTS recovered approximately $11.7 million from its 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 Operations for the year ended December 31, 2011. As these amounts were directly related to the EMS segment, the Consolidated Statements of (Loss)/Earnings amounts have been reported separately as discontinued operations.

In 2012, CTS recovered approximately $1.1 million from the Company's insurance carriers and recorded a recovery of $0.9 million in CTS' Consolidated Statements of Operations for the year ended December 31, 2012 for business interruption, after deducting $0.1 million for certain expenses and relieving the insurance receivable of approximately $0.1 million at December 31, 2011. These recoveries reflect the final settlement with CTS' insurance carrier. As these amounts were directly related to the EMS segment, the Consolidated Statements of Operations amounts have been reported separately as discontinued operations.

*Thailand EMS Manufacturing Facility Flood*

During the fourth quarter of 2011, CTS' Thailand EMS manufacturing facility was flooded. The flood damaged approximately $0.8 million of inventory and $0.5 million of fixed assets. CTS 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. CTS also has business interruption insurance under these policies that covers the lost sales impact and fixed costs. The maximum amount covered under the local insurance policy was approximately $2.4 million. CTS also has a secondary global insurance policy that covered costs not covered by the local policy for up to approximately $25 million with a deductible of $250,000.

In 2011, the insurance carrier for the local policy indicated that CTS was to be reimbursed for the maximum amount of $2.4 million. Consequently, CTS 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 Operations for the year ended December 31, 2011. As these amounts were directly related to the EMS segment, the Consolidated Statements of Operations amounts have been reported separately as discontinued operations.

In 2012, CTS received cash of approximately $24.6 million from the Company's insurance carriers. Included in this amount were approximately $21.5 million for business interruption and the remaining $3.1 million for reimbursement of costs related to property damage. Part of this cash received was to relieve the insurance receivable balance of $2.4 million recorded at December 31, 2011.

Accordingly, CTS recorded a recovery of approximately $20.0 million for business interruption and $1.8 million for property damage in CTS' Consolidated Statements of Operations for the year ended December 31, 2012. These recoveries reflect the final settlement with CTS' insurance carrier. As these amounts were directly related to the EMS segment, the Consolidated Statements of Operations amounts have been reported separately as discontinued operations except for $0.6 million. This was recorded in continuing operations from business interruption claims related to Components and Sensors.

**NOTE O — Leases**

CTS incurred rent expense from continuing operations of approximately $4.0 million in 2013, $3.4 million in 2012, and $3.4 million in 2011. The future minimum lease payments under the Company's lease agreements from continuing operations are $3.8 million in 2014, $2.6 million in 2015, $1.8 million in 2016, $1.7 million in 2017, $1.5 million in 2018, and $1.5 million thereafter. Future sub-lease income from continuing operations is $50,000 in 2014 and 2015. Some of CTS' operating leases include renewal options and escalation clauses.

CTS incurred rent expense from discontinued operations of approximately $2.2 million in 2013, $3.3 million in 2012, and $3.6 million in 2011. All leases from discontinued operations were transferred to Benchmark as part of the sale of the EMS business.

In the fourth quarter of 2012, one of CTS' foreign locations entered into a sale-leaseback transaction. Accordingly, CTS recorded a gain of approximately $10.3 million and deferred approximately $4.5 million of gain that will be amortized over six years. As of December 31, 2013, $0.8 million is recorded in other accrued liabilities and $2.9 million is recorded in other long-term obligations the Consolidated Balance Sheets. This activity was part of continuing operations.

**NOTE P — Restructuring Charges**

During April 2011, CTS initiated certain restructuring actions to reorganize certain operations to 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 was included in continuing operations and $0.2 million was included in discontinued operations. Restructuring charges

from continuing operations are reported on a separate line on the Consolidated Statements of Operations. These restructuring actions were completed in the second quarter of 2011.

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 and restructuring-related charges, excluding asset impairments and write-offs | **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 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 was included in continuing operations and $0.3 million was included in discontinued operations. Restructuring charges from continuing operations are reported on a separate line on the Consolidated Statements of Operations and the restructuring-related costs for continuing operations 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, 2012:

| ($ in millions) **October 2011 Plan** | |
|---|---|
| Restructuring liability at January 1, 2011 | **$ —** |
| Restructuring and restructuring-related charges | **2.2** |
| Cost paid | **(2.2)** |
| Restructuring liability at December 31, 2012 | **$ —** |

During June 2012, CTS initiated certain restructuring actions to reorganize certain operations to further improve its cost structure. These actions resulted in the elimination of approximately 250 positions. These actions were substantially completed by the middle of the fourth quarter of 2012. 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, 2013:

| ($ in millions) **June 2012 Plan** | Planned Costs | **Actual Incurred Through December 31, 2013** |
|---|---|---|
| Workforce reduction | $2.1 | **$2.0** |
| Asset impairment charge | 1.2 | **1.4** |
| Other charge | 0.1 | **0.2** |
| Restructuring and impairment charges | $3.4 | **$3.6** |
| Inventory write-down | $0.6 | **$0.7** |
| Equipment relocation | 0.5 | **0.3** |
| Other charges | 0.5 | **0.6** |
| Restructuring-related charges | $1.6 | **$1.6** |
| Total restructuring and restructuring-related charges | 5.0 | **5.2** |

Of the restructuring and restructuring-related charges incurred, $2.1 million was included from continuing operations and $3.1 million was included from discontinued operations. Restructuring and impairment charges for continuing operations are reported on a separate line on the Consolidated Statements of Operations. Restructuring-related charges for continuing operations are reported as a component of Cost of Goods Sold on the Consolidated Statements of Operations.

The following table displays the restructuring reserve activity related to the realignment for the period ended December 31, 2013:

| ($ in millions) June 2012 Plan | |
|---|---|
| Restructuring liability at January 1, 2013 | **$ 0.1** |
| Restructuring and restructuring-related charges, excluding asset impairments and write-offs | — |
| Cost paid | **(0.1)** |
| Restructuring liability at December 31, 2013 | **$ —** |

Included in the restructuring activities discussed above, CTS consolidated its operations from the U.K EMS manufacturing facility and the Tucson, Arizona Components and Sensors facility into other facilities. The EMS operations at the UK EMS facility were transferred to CTS' EMS facilities located in Londonderry, New Hampshire and Matamoros, Mexico. The Components and Sensors operations at the Tucson, Arizona facility were transferred to CTS' Components and Sensors facility located in Albuquerque, New Mexico.

During December of 2012, CTS further realigned its operations to suit the business needs of the Company. These realignment actions eliminated approximately 190 positions. These actions were completed as of March 31, 2013. 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, 2013:

| ($ in millions) December 2012 Plan | Planned Costs | Actual incurred through December 31, 2013 |
|---|---|---|
| Workforce reduction | $1.7 | **$1.8** |
| Asset impairment charge | 1.1 | **1.1** |
| Other charge | 0.3 | **0.4** |
| Restructuring and impairment charges | $3.1 | **$3.3** |
| Inventory write-down | $0.5 | **$0.5** |
| Equipment relocation | 0.1 | **0.3** |
| Other charges | 0.4 | **0.1** |
| Restructuring-related charges | $1.0 | **$0.9** |
| Total restructuring and restructuring-related charges | 4.1 | **4.2** |

Of the restructuring and restructuring-related charges incurred as of December 31, 2013, $0.2 million was included in continuing operations and $0.6 million was included in discontinued operations. Of the restructuring and restructuring-related charges incurred as of December 31, 2012, $2.4 million was included in continuing operations and $1.0 million was included in discontinued operations. Restructuring and impairment charges from continuing operations are reported on a separate line on the Consolidated Statements of Operations. Restructuring-related charges for continuing operations are reported as a component of Cost of Goods Sold on the Consolidated Statements of Operations.

The following table displays the restructuring reserve activity related to the realignment for the period ended December 31, 2013:

| ($ in millions) December 2012 Plan | |
|---|---|
| Restructuring liability at January 1, 2013 | **$ 1.6** |
| Restructuring and restructuring-related charges, excluding asset impairments and write-offs | **0.8** |
| Cost paid | **(2.4)** |
| Restructuring liability at December 31, 2013 | **$ —** |

During June of 2013, CTS announced plans to further restructure its operations to align its operations to the business needs of the Company. These restructuring actions will result in the elimination of approximately 350 positions. These actions are expected to be completed in 2014. 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, 2013:

| ($ in millions) June 2013 Plan | Planned Costs | Actual incurred through December 31, 2013 |
|---|---|---|
| Workforce reduction | $ 8.3 | **$ 7.2** |
| Asset impairment charge | 3.0 | **3.8** |
| Other charges, including pension termination costs | 5.5 | **0.3** |
| Restructuring and impairment charges | $16.8 | **$11.3** |
| Inventory write-down | $ 0.8 | **$ 1.1** |
| Equipment relocation | 0.9 | **0.2** |
| Other charges | 0.1 | **0.3** |
| Restructuring-related charges | $ 1.8 | **$ 1.6** |
| Total restructuring and restructuring-related charges | $18.6 | **$12.9** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Of the restructuring and restructuring-related charges incurred, $11.5 million was included in continuing operations and $1.4 million was included in discontinued operations. Restructuring and impairment charges from continuing operations are reported on a separate line on the Consolidated Statements of Operations. Restructuring-related charges for continuing operations are reported as a component of Cost of Goods Sold on the Consolidated Statements of Operations.

The following table displays the restructuring reserve activity for the year ended December 31, 2013:

| ($ in millions) **June 2013 Plan** | |
|---|---|
| Restructuring liability at April 1, 2013 | **$ —** |
| Restructuring and restructuring-related charges, excluding asset impairments and write-offs | **8.0** |
| Cost paid | **(4.9)** |
| Restructuring liability at December 31, 2013 | **$ 3.1** |

The restructuring activities discussed above, will simplify CTS' global footprint by consolidating manufacturing facilities into existing locations. This plan includes the consolidation of operations from the U.K, manufacturing facility into the Czech Republic facility, the Carol Stream, Illinois manufacturing facility into the Juarez, Mexico facility and to discontinue manufacturing at its Singapore facility.

## Note Q — Other Comprehensive Earnings

The components of comprehensive earnings/(loss) for CTS include foreign currency translation adjustments, unrecognized pension gains/(losses) and prior service costs, unrealized loss on cash flow hedges and net earnings, and are reported in the "Consolidated Statements of Accumulated Other Comprehensive Earnings/(Loss)."

The following table displays the changes in Accumulated Other Comprehensive Earnings/(Loss) by components at December 31 (all amounts are stated net of tax):

| ($ in thousands) | Cumulative translation adjustment | Defined benefit pension items | Unrealized gains and losses on cash flow hedges | Total |
|---|---|---|---|---|
| Accumulated other comprehensive earnings/(loss) — balance at January 1, 2011 | $ 161 | $ (87,716) | $ — | $ (87,555) |
| Cumulative translation adjustment | (251) | — | — | (251) |
| Net actuarial gains/(losses) | — | (30,947) | — | (30,947) |
| Amounts reclassified from accumulated other comprehensive loss to earnings/(loss) | — | 3,607 | — | 3,607 |
| Net current period other comprehensive loss | $ (251) | $ (27,340) | $ — | $ (27,591) |
| Accumulated other comprehensive earnings/(loss) — balance at December 31, 2011 | $ (90) | $(115,056) | $ — | $(115,146) |
| Cumulative translation adjustment | 1,309 | — | — | 1,309 |
| Unrealized holding gain/(loss) | | | (980) | (980) |
| Net actuarial gains/(losses) | — | (10,047) | — | (10,047) |
| Amounts reclassified from accumulated other comprehensive loss to earnings/(loss) | — | 4,260 | — | 4,260 |
| Net current period other comprehensive loss | $1,309 | $ (5,787) | $(980) | $ (5,458) |
| Accumulated other comprehensive earnings/(loss) — balance at December 31, 2012 | $1,219 | $(120,843) | $(980) | $(120,604) |
| Cumulative translation adjustment | 585 | — | — | 585 |
| Unrealized holding gain/(loss) | — | — | 188 | 188 |
| Net actuarial gains/(losses) | — | 31,821 | — | 31,821 |
| Amounts reclassified from accumulated other comprehensive loss to earnings/(loss) | — | 5,917 | 196 | 6,113 |
| Net current period other comprehensive earnings | $ 585 | $ 37,738 | $ 384 | $ 38,707 |
| Accumulated other comprehensive loss — balance at December 31, 2013 | $1,804 | $ (83,105) | $(596) | $ (81,897) |

The following table displays the reclassifications out of Accumulated Other Comprehensive Earnings/(Loss) at December 31:

| ($ in thousands) Details about Accumulated Other Comprehensive Earnings Components | 2013[a] | 2012[a] | 2011[a] | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|---|---|---|
| Losses on cash flow hedges: | | | | |
| Interest rate swap contracts | $ 322 | $ – | $ – | Interest expense |
| | (126) | – | – | Tax benefit |
| | $ 196 | $ – | $ – | Net of tax |
| Amortization of defined benefit and post-retirement benefit plans: | | | | |
| Prior service costs | $ 498 | $ 605 | $ 611 | (b) |
| Gain/(loss) included in net periodic pension costs | 7,623 | 6,318 | 4,434 | (b) |
| Settlements and curtailments | 1,343 | 282 | 670 | (b) |
| Foreign exchange impact | 2 | (235) | 110 | Other expense |
| | 9,466 | 6,970 | 5,825 | Total before tax |
| | $(3,549) | $(2,707) | $(2,218) | Tax benefit |
| | 5,917 | 4,263 | 3,607 | Net of tax |
| Total reclassification for the period | $ 6,113 | $ 4,263 | $ 3,607 | Net of tax |

(a) *Amounts in parenthesis indicate credit.*

(b) *These accumulated other comprehensive earnings components are included in the computation of net periodic pension cost. The actuarial loss that was reclassified in 2013 to Cost of goods sold of $3,280, Selling, general and administrative expenses of $4,398 and research and development expenses of $1,786 are reflected on CTS' Consolidated Statements of Operations. The actuarial loss that was reclassified in 2012 to Cost of goods sold of $2,456, Selling, general and administrative expenses of $3,234 and research and development expenses of $1,513 are reflected on CTS' Consolidated Statements of Operations. The actuarial loss that was reclassified in 2011 to Cost of goods sold of $1,880, Selling, general and administrative expenses of $2,737 and research and development expenses of $1,097 are reflected on CTS' Consolidated Statements of Operations.*

## NOTE R — Quarterly Financial Data

### Quarterly Results of Operations

(Unaudited)

| ($ in thousands) | First | Second | Third | Fourth |
|---|---|---|---|---|
| **2013** | | | | |
| **Net sales** | **$98,062** | **$105,381** | **$103,632** | **$102,386** |
| **Gross margins** | **26,786** | **32,400** | **32,001** | **30,166** |
| **Operating earnings/(loss)** | **2,681** | **2,443** | **7,553** | **5,010** |
| **Earnings/(loss) from continuing operations** | **2,988** | **(10,253)** | **5,115** | **4,147** |
| **Earnings/(loss) from discontinued operations** | **580** | **(1,082)** | **1,704** | **(7,128)** |
| **Net earnings/(loss)** | **3,568** | **(11,335)** | **6,819** | **(2,981)** |
| **Basic earnings per share:** | | | | |
| **Earnings from continuing operations** | **$ 0.09** | **$ (0.31)** | **$ 0.16** | **$ 0.12** |
| **Earnings/(loss) from discontinued operations** | **0.02** | **(0.03)** | **0.04** | **(0.21)** |
| **Total** | **$ 0.11** | **$ (0.34)** | **$ 0.20** | **$ (0.09)** |
| **Diluted earnings per share:** | | | | |
| **Earnings from continuing operations** | **$ 0.09** | **$ (0.31)** | **$ 0.16** | **$ 0.12** |
| **Earnings/(loss) from discontinued operations** | **0.01** | **(0.03)** | **0.05** | **(0.21)** |
| **Total** | **$ 0.10** | **$ (0.34)** | **$ 0.21** | **$ (0.09)** |
| **2012** | | | | |
| Net sales | $76,418 | $ 76,823 | $ 75,565 | $ 75,675 |
| Gross margins | 22,781 | 23,202 | 23,146 | 22,387 |
| Operating earnings/(loss) | 1,646 | 2,391 | 3,283 | 7,741 |
| Earnings/(loss) from continuing operations | 1,947 | 2,013 | 3,601 | 5,931 |
| Earnings/(loss) from discontinued operations | 336 | 1,288 | 2,316 | 2,901 |
| Net earnings/(loss) | 2,283 | 3,301 | 5,917 | 8,832 |
| Basic earnings per share: | | | | |
| Earnings from continuing operations | $ 0.06 | $ 0.07 | $ 0.10 | $ 0.17 |
| Earnings/(loss) from discontinued operations | 0.01 | 0.03 | 0.07 | 0.09 |
| Total | $ 0.07 | $ 0.10 | $ 0.17 | $ 0.26 |
| Diluted earnings per share: | | | | |
| Earnings from continuing operations | $ 0.06 | $ 0.06 | $ 0.10 | $ 0.17 |
| Earnings/(loss) from discontinued operations | 0.01 | 0.04 | 0.07 | 0.08 |
| Total | $ 0.07 | $ 0.10 | $ 0.17 | $ 0.25 |

## 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, 2013 | | | | | |
| Allowance for doubtful accounts | $ 811 | $(130) | $(442) | $(109) | $ 130 |
| Year ended December 31, 2012 | | | | | |
| Allowance for doubtful accounts | $1,100 | $(314) | $ 25 | $ — | $ 811 |
| Year ended December 31, 2011: | | | | | |
| Allowance for doubtful accounts | $1,269 | $ (52) | $ — | $(117) | $1,100 |

# Exhibit (21)

## CTS CORPORATION AND SUBSIDIARIES

**As of March 3, 2014**

CTS Corporation (Registrant), an Indiana corporation

| Subsidiary: | Jurisdiction |
|---|---|
| CTS Corporation | Delaware |
| CTS Automotive Holdings, L.L.C. | Delaware |
| CTS Electronics Components, Inc. | Delaware |
| LTB Investment Corporation | Delaware |
| Tusonix, Inc. | Arizona |
| CTS Electronic Components (California), Inc. | California |
| CTS Printex, Inc. | California |
| CTS Automotive, L.L.C. | Illinois |
| CTS Automotive Holdings 2, L.L.C. | Illinois |
| CTS SRL-CV Holdings 1, L.L.C. | Illinois |
| CTS Valpey Corporation | Maryland |
| Dynamics Corporation of America | New York |
| CTS Czech Republic S.R.O. | Czech Republic |
| CTS Europe GmbH | Germany |
| CTS Electronics Hong Kong, Ltd. | Hong Kong Special Administrative Region of the People's Republic of China |
| CTS India Private Limited | India |
| CTS Japan, Inc. | Japan |
| D&R Operaciones de Mexico Sociedad de Responsabilidad Limitada Capital Variable | Republic of Mexico |
| CTS International B.V. | The Netherlands |
| CTS Overseas Holdings, B.V. | The Netherlands |
| CTS (Tianjin) Electronics Company Ltd. | People's Republic of China |
| CTS (Zhongshan) Technology Co. Ltd. | People's Republic of China |
| CTS of Canada Co. | Province of Nova Scotia (Canada) |
| 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 Components Taiwan, Ltd. | Republic of China |
| CTS Electro de Matamoros, S.A de C.V. | Republic of Mexico |
| Tecnologia Mexicana S.A. de C.V. | Republic of Mexico |
| CTS of Panama, S de R.L. | Republic of Panama |
| CTS Singapore Pte., Ltd. | Republic of Singapore |
| CTS Corporation U.K., Ltd. | Scotland |
| CTS Electronic Components A. G. | Switzerland |

## Exhibit (23)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated March 3, 2014, 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, 2013. We hereby consent to the incorporation by reference of said reports in the Registration Statements of CTS Corporation on Form S-3 (File No. 333-72146, effective November 9, 2001) and on Forms S-8 (File No. 333-159542, effective May 28, 2009, 333-116287, effective June 8, 2004, 333-106614, effective June 27, 2003, and 333-62202, effective June 4, 2001).

*/s/ GRANT THORNTON LLP*

Chicago, Illinois
March 3, 2014

**EXHIBIT (31)(a)**

## CERTIFICATION

I, Kieran O'Sullivan, 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: March 3, 2014

*/s/ Kieran O'Sullivan*
Kieran O'Sullivan
President and Chief Executive Officer

**EXHIBIT (31)(b)**

# CERTIFICATION

I, Ashish Agrawal, certify that:

6. I have reviewed this annual report on Form 10-K of CTS Corporation:
7. 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;
8. 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;
9. 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
10. 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: March 3, 2014

*/s/ Ashish Agrawal*
Ashish Agrawal
Vice President and Chief Financial Officer

**EXHIBIT (32)(a)**

## 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, 2013, 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: March 3, 2014

*/s/ Kieran O'Sullivan*

Kieran O'Sullivan
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.

**EXHIBIT (32)(b)**

## 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, 2013, 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:

(3) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(4) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2014

*/s/ Ashish Agrawal*

Ashish Agrawal
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.

# Shareholder Information

**Annual Meeting of Shareholders**
The 2014 annual meeting of shareholders is scheduled to be held on Wednesday, May 21, 2014, in Lisle, Illinois. Shareholders of record at the close of business on April 4, 2014, 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 2013 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, 2013.

**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: 574-293-0251
www.ctscorp.com

# 2013 Board of Directors

**Kieran M. O'Sullivan**
President and Chief Executive Officer,
CTS Corporation

**Thomas G. Cody**
CTS Chairman
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**
Chairman, President and
Chief Executive Officer,
PNM Resources, Inc.

**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 LLC

**Robert A. Profusek**
Partner, Jones Day

# Corporate Officers

**Kieran M. O'Sullivan**
President and Chief Executive Officer

**Ashish Agrawal**
Vice President and Chief Financial Officer

**Anthony W. Urban**
Vice President and General Manager
Sensors and Mechatronics

**Robert Patton**
Vice President, General Counsel
and Secretary

# 2013 Committees of the Board

**Compensation Committee**
Patricia K. Collawn (Chairperson)
Walter S. Catlow
Gordon Hunter
Diana M. Murphy

**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
Kieran M. O'Sullivan
Gordon Hunter

**Audit Committee**
Lawrence J. Ciancia (Chairman)
Walter S. Catlow
Michael A. Henning

## Worldwide Manufacturing Facilities

Albuquerque, New Mexico
Carol Stream, Illinois
Elkhart, Indiana
Guragon, India
Hopkinton, Massachusetts
Juarez, Mexico
Kaohsiung, Taiwan
Matamoros, Mexico
Nogales, Mexico
Ostrava, Czech Republic
Singapore
Streetsville, Ontario, Canada
Tianjin, China
Zhongshan, China

905 West Boulevard North
Elkhart, IN 46514
Phone: 574-523-3800
www.ctscorp.com