

CTS CORP
Form 10-Q/A
May 15, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the Quarterly Period Ended April 2, 2006

OR

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

For the Transition Period from _____ to _____

Commission File Number: 1-4639

CTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction
of incorporation or
organization)

35-0225010
(IRS Employer
Identification
Number)

905 West Boulevard North,
Elkhart, IN
(Address of principal executive

46514
(Zip Code)

offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 24, 2006:

35,886,365

CTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
<u>EXPLANATORY NOTE</u>	3
<u>PART I.</u>	
FINANCIAL INFORMATION	4
Item 1. <u>Financial Statements</u>	4
<u>Condensed Consolidated Statements of Earnings</u> - For the Three Months ended April 2, 2006 (as restated) and April 3, 2005	4
<u>Condensed Consolidated Balance Sheets</u> - As of April 2, 2006 (as restated), and December 31, 2005 (as restated)	5
<u>Condensed Consolidated Statements of Cash Flows</u> - For the Three Months Ended April 2, 2006 (as restated) and April 3, 2005	6
<u>Condensed Consolidated Statements of Comprehensive Earnings</u> - For the Three Months Ended April 2, 2006 (as restated) and April 3, 2005	7
<u>Notes to Condensed Consolidated Financial Statements (as restated)</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations (as restated)</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4. <u>Controls and Procedures (as restated)</u>	28
<u>PART II.</u>	
OTHER INFORMATION	29
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 6. <u>Exhibits</u>	30
<u>SIGNATURES</u>	31

Table of Contents

EXPLANATORY NOTE

We are filing this Form 10-Q/A to amend our Quarterly Report on Form 10-Q for the quarter ended April 2, 2006 as filed with the Securities and Exchange Commission on April 26, 2006 (the “Original Filing”) to restate our consolidated financial statements and amend the related disclosures for the three-month period ended April 2, 2006. This amended Form 10-Q/A also includes the restatement of selected unaudited quarterly financial data for the first quarter in the year ended December 31, 2006 and a restated condensed consolidated balance sheet for the year ended December 31, 2005. As previously disclosed in our Current Report on Form 8-K filed on February 9, 2007, our financial statements and related financial information contained in our Quarterly Reports on Form 10-Q filed in 2006 should no longer be relied upon. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the Original Filing.

The restatement of the Original Filing was based on a review initiated by management under the oversight of the Audit Committee, with the assistance of outside counsel and forensic accountants, revealing incorrect entries made by the controller at our Moorpark, California location. The incorrect entries consisted of the movement of costs from income statement accounts, primarily cost of goods sold, to balance sheet accounts, primarily accounts payable, beginning in 2005 and continuing throughout 2006.

For more information on these matters, please refer to Note B, to the condensed consolidated financial statements “Restatement of the Condensed Consolidated Financial Statements”, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 4, “Controls and Procedures.”

All of the information in this Form 10-Q/A is as of April 2, 2006 and does not reflect events occurring after the date of the Original Filing, other than the restatement, or update disclosures affected by subsequent events, including the exhibits to the Original Filing, except for the updated Exhibits 31(a), 31(b), 32(a), and 32(b). This Form 10-Q/A sets forth the Original Filing in its entirety, as amended by and to reflect the restatement, as well as other adjustments described above. The following items in the Form 10-Q/A were amended to reflect the restatement:

Part I Item 1 Unaudited Financial Statements;
Part I Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations;
Part I Item 4 Controls and Procedures;
Part II Item 6 Exhibits

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

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

	Three Months Ended	
	April 2, 2006	April 3, 2005
	(as restated)	
Net sales	\$ 150,493	\$ 155,330
Costs and expenses:		
Cost of goods sold	120,452	127,115
Selling, general, and administrative expenses	16,390	17,757
Research and development expenses	4,092	4,787
Restructuring charge - Note D	1,962	—
Operating earnings	7,597	5,671
Other (expense) income:		
Interest expense	(1,111)	(1,717)
Interest income	125	419
Other	3	26
Total other expense	(983)	(1,272)
Earnings before income taxes	6,614	4,399
Income tax expense	1,574	1,012
Net earnings	\$ 5,040	\$ 3,387
Net earnings per share — Note L		
Basic	\$ 0.14	\$ 0.09
Diluted	\$ 0.13	\$ 0.09
Cash dividends declared per share	\$ 0.03	\$ 0.03
Average common shares outstanding:		
Basic	35,821	36,398
Diluted	40,234	40,979

See notes to condensed consolidated financial statements (as restated).

Table of Contents

CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS — UNAUDITED
(In thousands of dollars)

	April 2, 2006 (as restated)	December 31, 2005* (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,637	\$ 12,029
Accounts receivable, less allowances (2006 - \$2,578; 2005 - \$2,373)	94,005	90,790
Inventories — Note G	60,995	60,629
Other current assets	19,678	16,268
Total current assets	187,315	179,716
Property, plant and equipment, less accumulated depreciation (2006 - \$251,315; 2005 - \$252,545)	106,212	109,653
Other Assets		
Prepaid pension asset — Note I	153,680	152,483
Goodwill	24,657	24,657
Other intangible assets	41,540	42,347
Deferred income taxes	22,921	22,887
Other	1,943	2,086
Total other assets	244,741	244,460
Total Assets	\$ 538,268	\$ 533,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable	\$ 14,124	\$ 13,299
Current portion of long-term debt - Note H	170	164
Accounts payable	66,219	68,720
Accrued liabilities	39,767	39,140
Total current liabilities	120,280	121,323
Long-term debt - Note H	68,208	68,293
Other long-term obligations	16,206	16,120
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock — authorized 75,000,000 shares without par value; 53,603,592 shares issued at April 2, 2006 and 53,576,243 shares issued at December 31, 2005	275,485	275,211
Additional contributed capital	25,483	24,743
Retained earnings	299,441	295,478
Accumulated other comprehensive earnings (loss)	291	(244)
	600,700	595,188
Cost of common stock held in treasury (17,720,127 shares at 2006 and 17,717,657 shares at 2005)	(267,126)	(267,095)
Total shareholders' equity	333,574	328,093
Total Liabilities and Shareholders' Equity	\$ 538,268	\$ 533,829

**The balance sheet at December 31, 2005, has been derived from the restated audited financial statements at that date.*

See notes to condensed consolidated financial statements (as restated).

5

Table of Contents

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

	Three Months Ended	
	April 2, 2006	April 3, 2005
	(as restated)	
Cash flows from operating activities:		
Net earnings	\$ 5,040	\$ 3,387
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,687	6,848
Equity-based compensation - Note C	865	617
Changes in assets and liabilities, net of effects from purchase of SMTEK		
Accounts receivable	(3,216)	2,078
Inventories	(366)	(139)
Other current assets	(2,906)	(2,226)
Prepaid pension asset	(1,197)	(1,887)
Accounts payable and accrued liabilities	(1,825)	1,688
Other	(453)	493
Total adjustments	(2,411)	7,472
Net cash provided by operating activities	2,629	10,859
Cash flows from investing activities:		
Payment for purchase of SMTEK, net of cash acquired	—	(35,561)
Capital expenditures	(2,479)	(3,004)
Proceeds from sales of assets	513	499
Net cash used in investing activities	(1,966)	(38,066)
Cash flows from financing activities:		
Repayment of debt assumed in connection with purchase of SMTEK	—	(13,013)
Payments of long-term debt	(34,165)	(33,982)
Proceeds from borrowings of long-term debt	34,040	72,715
Increase in short-term notes payable	825	188
Dividends paid	(1,076)	(1,078)
Other	39	78
Net cash provided by (used in) financing activities	(337)	24,908
Effect of exchange rate on cash and cash equivalents	282	(469)
Net increase (decrease) in cash and cash equivalents	608	(2,768)
Cash and cash equivalents at beginning of year	12,029	61,005
Cash and cash equivalents at end of period	\$ 12,637	\$ 58,237
Supplemental cash flow information		
Cash paid during the period for:		

Interest	\$	559	\$	1,503
Income taxes—net	\$	1,360	\$	819

Supplemental schedule of noncash investing and financing activities:

Refer to Note F, “Supplemental Schedule of Noncash Investing and Financing Activities”

See notes to condensed consolidated financial statements (as restated).

Table of Contents

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

	Three Months Ended	
	April 2, 2006	April 3, 2005
	(as restated)	
Net earnings	\$ 5,040	\$ 3,387
Other comprehensive earnings (loss):		
Cumulative translation adjustment	535	(395)
Comprehensive earnings	\$ 5,575	\$ 2,992

See notes to condensed consolidated financial statements (as restated).

Table of Contents

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - UNAUDITED
April 2, 2006

NOTE A—Basis of Presentation

The accompanying condensed consolidated interim financial statements have been prepared by CTS Corporation (CTS or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated interim financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying unaudited condensed consolidated interim financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

NOTE B—Restatement of Condensed Consolidated Financial Statements

In February 2007, management commenced an investigation of accounting entries at CTS' Moorpark and Santa Clara, California manufacturing locations. The investigation was conducted under the oversight of the Audit Committee and with the assistance of outside legal counsel and forensic accountants.

The investigation determined that the Moorpark Controller made numerous incorrect accounting entries beginning in 2005 and continuing through 2006. These entries transferred significant costs from income statement accounts, primarily cost of goods sold, to balance sheet accounts, primarily accounts payable.

The net tax adjusted effect of these misstatements on CTS' 2005 earnings was \$1.5 million and on the nine months ended October 1, 2006 earnings was \$1.9 million. Management has included a restated condensed consolidated balance sheet for the year ended December 31, 2005 in this filing. Management determined that the effect of the misstatements on CTS' 2006 consolidated financial statements was material. As a result of the misstatements, CTS has restated its condensed consolidated financial statements for each of the first three quarters of 2006 to record \$1.9 million of total costs net of related income tax effects. These misstatements resulted in tax adjusted charges of \$1.2 million, \$1.0 million and \$(0.3) million for each of the quarters ended April 2, 2006, July 2, 2006 and October 1, 2006, respectively. These additional charges are non-cash and have no impact on CTS' reported revenue, cash, cash equivalents or marketable securities for each of the restated periods.

CTS' original filings on Form 10-Q for the quarters ended April 2, 2006, July 2, 2006 and October 1, 2006 are being amended in Quarterly Reports on Form 10-Q/A to reflect restated consolidated financial statements and related disclosures.

Table of Contents

The following table sets forth the impact of the misstatements and related tax effects on CTS' condensed consolidated financial statements for the three-month period ended April 2, 2006 and the condensed consolidated balance sheet as of December 31, 2005:

Income Statement**Three months ended April 2, 2006**

	As Reported	Adjustments	As Restated
Cost of Goods Sold	\$ 118,419	\$ 2,033	\$ 120,452
Selling, general and administrative expenses	16,737	(347)	16,390
Operating Earnings	9,283	(1,686)	7,597
Earnings before income taxes	8,300	(1,686)	6,614
Income tax expense	2,075	(501)	1,574
Net earnings	\$ 6,225	\$ (1,185)	\$ 5,040
Net earnings per share			
Basic	\$ 0.17	\$ (.03)	\$ 0.14
Diluted	0.16	(.03)	0.13

Balance Sheet**April 2, 2006**

	As Reported	Adjustments	As Restated
Account receivable	\$ 94,136	\$ (131)	\$ 94,005
Inventories	61,450	(455)	60,995
Other current assets	19,813	(135)	19,678
Total current assets	188,036	(721)	187,315
Deferred income taxes	22,045	876	22,921
Property, plant and equipment	106,278	(66)	106,212
Total Assets	\$ 538,179	\$ 89	\$ 538,268
Accounts payable	62,681	3,538	66,219
Accrued liabilities	40,552	(785)	39,767
Total current liabilities	117,527	2,753	120,280
Retained earnings	302,105	(2,664)	299,441
Total shareholders' equity	336,238	(2,664)	333,574
Total Liabilities and Shareholders' Equity	\$ 538,179	\$ 89	\$ 538,268

Balance Sheet**December 31, 2005**

	As Reported	Adjustments	As Restated
Account receivable	\$ 91,265	\$ (475)	\$ 90,790
Inventories	60,564	65	60,629
Other current assets	16,816	(548)	16,268

Edgar Filing: CTS CORP - Form 10-Q/A

Total current assets	180,674	(958)	179,716
Deferred income taxes	22,011	876	22,887
Property, plant and equipment	109,676	(23)	109,653
Other assets	2,088	(2)	2,086
Total Assets	\$ 533,936	\$ (107)	\$ 533,829
Accounts payable	67,196	1,524	68,720
Accrued liabilities	39,274	(134)	39,140
Total current liabilities	119,933	1,390	121,323
Other long-term obligations	16,139	(19)	16,120
Retained earnings	296,956	(1,478)	295,478
Total shareholders' equity			