

CTS CORP
Form 10-Q
July 29, 2016
Table of Contents

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

(Mark One)

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

For The Quarterly Period Ended June 30, 2016

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 35-0225010
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

2375 Cabot Drive, Lisle, IL 60532
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 630-577-8800

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if smaller reporting
company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 27, 2016:
32,758,961.

Table of Contents

CTS CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Earnings (Unaudited) For the Periods Ended June 30, 2016 and June 28, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) For the Periods Ended June 30, 2016 and June 28, 2015</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets As of June 30, 2016 (Unaudited) and December 31, 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) For the Periods Ended June 30, 2016 and June 28, 2015</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
<u>Item 4. Controls and Procedures</u>	<u>36</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>36</u>
<u>Item 1A. Risk Factors</u>	<u>36</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>37</u>
<u>SIGNATURES</u>	<u>37</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CTS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - UNAUDITED

(In thousands of dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,	June 28,	June 30,	June 28,
	2016	2015	2016	2015
Net sales	\$98,693	\$100,071	\$195,398	\$198,382
Cost of goods sold	64,236	66,698	127,472	132,873
Gross Margin	34,457	33,373	67,926	65,509
Selling, general and administrative expenses	15,764	15,224	30,411	30,935
Research and development expenses	5,967	5,487	12,130	10,686
Restructuring and impairment charges	206	2,118	206	2,856
(Gain) loss on sale of assets	(11,577)	2	(11,351)	(1)
Operating earnings	24,097	10,542	36,530	21,033
Other (expense) income:				
Interest expense	(1,009)	(653)	(1,829)	(1,241)
Interest income	331	853	879	1,641
Other (expense) income	(1,240)	117	(1,436)	(1,570)
Total other (expense) income	(1,918)	317	(2,386)	(1,170)
Earnings before income taxes	22,179	10,859	34,144	19,863
Income tax expense (benefit)	7,692	(8,221)	11,794	(5,504)
Net earnings	\$14,487	\$19,080	\$22,350	\$25,367
Earnings per share:				
Basic	\$0.44	\$0.58	\$0.68	\$0.76
Diluted	\$0.44	\$0.57	\$0.67	\$0.75
Basic weighted – average common shares outstanding:	32,759	33,080	32,695	33,243
Effect of dilutive securities	466	471	485	497
Diluted weighted – average common shares outstanding	33,225	33,551	33,180	33,740
Cash dividends declared per share	\$0.04	\$0.04	\$0.08	\$0.08

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 28, 2015	June 30, 2016	June 28, 2015
Net earnings	\$ 14,487	\$ 19,080	\$ 22,350	\$ 25,367
Other comprehensive income (loss):				
Changes in fair market value of hedges, net of tax	(67)	69	227	(17)
Changes in unrealized pension cost, net of tax	947	705	1,855	1,962
Cumulative translation adjustment, net of tax	(317)	1,491	(726)	388
Other comprehensive income	\$ 563	\$ 2,265	\$ 1,356	\$ 2,333
Comprehensive income	\$ 15,050	\$ 21,345	\$ 23,706	\$ 27,700

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	(Unaudited)	
	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 119,912	\$ 156,928
Accounts receivable, net	62,125	54,563
Inventories, net	25,978	24,600
Other current assets	12,457	9,863
Total current assets	220,472	245,954
Property, plant and equipment, net	76,973	69,872
Other Assets		
Prepaid pension asset	37,712	33,779
Goodwill	61,744	33,865
Other intangible assets, net	67,567	34,758
Deferred income taxes	54,212	63,809
Other	1,154	1,336
Total other assets	222,389	167,547
Total Assets	\$ 519,834	\$ 483,373
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 41,679	\$ 40,299
Accrued payroll and benefits	8,501	7,147
Accrued liabilities	46,915	47,174
Total current liabilities	97,095	94,620
Long-term debt	110,800	90,700
Post retirement obligations	7,105	7,230
Other long-term obligations	2,200	9,169
Total Liabilities	217,200	201,719
Shareholders' Equity		
Common stock	302,146	300,909
Additional contributed capital	39,824	41,166
Retained earnings	401,569	381,840
Accumulated other comprehensive loss	(97,649)	(99,005)
Total shareholders' equity before treasury stock	645,890	624,910
Treasury stock	(343,256)	(343,256)
Total shareholders' equity	302,634	281,654
Total Liabilities and Shareholders' Equity	\$ 519,834	\$ 483,373

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended	
	June 30, 2016	June 28, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$22,350	\$25,367
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,925	8,093
Pension and other post-retirement plan (income) expense	(794)	3,297
Equity-based compensation	967	2,362
Restructuring charges	206	2,856
Prepaid pension assets	—	(4,422)
Deferred income taxes	2,877	—
(Gain) loss on sales of fixed assets	(11,351)	(1)
(Gain) loss on foreign currency hedges	(3)	—
Proceeds from settlement of foreign currency hedges	46	—
Changes in assets and liabilities:		
Accounts receivable	(5,805)	(6,628)
Inventories	842	(2,914)
Other assets	(2,115)	(409)
Accounts payable	169	1,556
Accrued payroll and benefits	876	(704)
Accrued expenses	(2,594)	(2,588)
Income taxes payable	800	1,210
Other liabilities	(1,466)	(11,581)
Pension and other post-retirement plans	(175)	—
Net cash provided by operating activities	13,755	15,494
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,483)	(3,905)
Proceeds from sale of assets	12,237	3
Payment for acquisition, net of cash acquired	(73,063)	—
Net cash used in investing activities	(68,309)	(3,902)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(1,462,100)	(562,300)
Proceeds from borrowings of long-term debt	1,482,200	576,000
Purchase of treasury stock	—	(11,369)
Dividends paid	(2,612)	(2,668)
Windfall tax benefits from equity awards	696	147
Proceeds from exercise of stock options	—	64
Net cash provided by (used in) financing activities	18,184	(126)
Effect of exchange rate changes on cash and cash equivalents	(646)	817
Net (decrease) increase in cash and cash equivalents	(37,016)	12,283
Cash and cash equivalents at beginning of period	156,928	134,508
Cash and cash equivalents at end of period	\$119,912	\$146,791
Supplemental cash flow information:		
Cash paid for interest	\$1,547	\$1,046

Cash paid for income taxes, net	\$8,703	\$4,248
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See notes to unaudited condensed consolidated financial statements.

6

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(in thousands except for share and per share data)

June 30, 2016

NOTE 1—Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation (“CTS” or “the Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated 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, 2015.

The accompanying unaudited condensed consolidated 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.

Subsequent Events

CTS has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements are issued.

Reclassifications

Certain prior period reclassifications have been made in the Condensed Consolidated Balance Sheet as a result of including our other post-retirement benefit plan liabilities in Post-retirement obligations as well as the retrospective application of a new accounting pronouncement upon the adoption of ASU 2015-17 (see Note 18 - Recent Accounting Pronouncements for additional details). The chart below quantifies the effects of these reclassification adjustments on our December 31, 2015, financial statements:

Consolidated Balance Sheet Line Item	At December 31, 2015		
	As previously reported	Reclassification adjustment	As currently reported
Other current assets	\$15,888	\$ (6,025)	\$9,863
Deferred income taxes	\$58,544	\$ 5,265	\$63,809
Accrued liabilities	\$(53,905)	\$ 6,731	\$(47,174)
Post-retirement obligations	\$(2,703)	\$ (4,527)	\$(7,230)
Other long-term obligations	\$(7,725)	\$ (1,444)	\$(9,169)

NOTE 2 – Accounts Receivable

The components of accounts receivable are as follows:

As of
June 30,

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	December	
	31,	
	2016	2015
Accounts receivable, gross	\$62,297	\$54,696
Less: Allowance for doubtful accounts	(172)	(133)
Accounts receivable, net	\$62,125	\$54,563

7

Table of Contents

NOTE 3 – Inventories

Inventories consist of the following:

	As of	
	June 30,	December
	2016	31,
		2015
Finished goods	\$5,881	\$6,972
Work-in-process	8,501	6,828
Raw materials	17,856	16,991
Less: Inventory reserves	(6,260)	(6,191)
Inventories, net	\$25,978	\$24,600

NOTE 4 – Property, Plant and Equipment

Property, plant and equipment is comprised of the following:

	As of	
	June 30,	December
	2016	31,
		2015
Land	\$2,330	\$2,401
Buildings and improvements	63,053	65,731
Machinery and equipment	203,637	191,212
Less: Accumulated depreciation	(192,047)	(189,472)
Property, plant and equipment, net	\$76,973	\$69,872

NOTE 5 – Retirement Plans

Pension Plans

Net pension income for our domestic and foreign plans was as follows:

	Three Months		Six Months	
	Ended		Ended	
	June	June	June	June 28,
	30,	28,	30,	2015
	2016	2015	2016	2015
Net pension income	\$(402)	\$(530)	\$(794)	\$(1,059)

The components of net pension (income) expense for our domestic and foreign plans include the following:

	Domestic Pension Plans		Foreign Pension Plans	
	Three Months Ended		Three Months Ended	
	June 30,	June 28,	June 30,	June 28,
	2016	2015	2016	2015
Service cost	\$ 22	\$ 42	\$ 13	\$ 16
Interest cost	2,756	2,815	11	124
Expected return on plan assets (1)	(4,744)	(5,068)	7	(134)
Amortization of loss	1,498	1,585	35	90

(Income) expense, net \$ (468) \$ (626) \$ 66 \$ 96

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

8

Table of Contents

	Domestic Pension Plans		Foreign Pension Plans	
	Six Months Ended		Six Months Ended	
	June 30,	June 28,	June 30,	June 28,
	2016	2015	2016	2015
Service cost	\$ 44	\$ 86	\$ 25	\$ 33
Interest cost	5,512	5,629	22	