

**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 September 30, 2021

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)

IN
(State or other jurisdiction of
incorporation or organization)

4925 Indiana Avenue
Lisle IL
(Address of principal executive offices)

35-0225010
(IRS Employer
Identification Number)

60532
(Zip Code)

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, without par value	CTS	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

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 October 21, 2021: 32,224,552.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net sales	\$ 122,382	\$ 113,777	\$ 380,394	\$ 301,049
Cost of goods sold	76,720	76,871	244,446	204,677
Gross margin	45,662	36,906	135,948	96,372
Selling, general and administrative expenses	19,922	16,883	59,184	48,310
Research and development expenses	6,454	5,723	18,170	18,653
Restructuring charges	319	1,041	551	1,416
Operating earnings	18,967	13,259	58,043	27,993
Other (expense) income:				
Interest expense	(514)	(857)	(1,577)	(2,617)
Interest income	230	217	689	852
Other (expense) income, net	(108,502)	1,617	(132,786)	(109)
Total other (expense) income, net	(108,786)	977	(133,674)	(1,874)
(Loss) earnings before income taxes	(89,819)	14,236	(75,631)	26,119
Income tax (benefit) expense	(25,923)	3,163	(24,600)	6,381
Net (loss) earnings	\$ (63,896)	\$ 11,073	\$ (51,031)	\$ 19,738
Loss (earnings) per share:				
Basic	\$ (1.97)	\$ 0.34	\$ (1.58)	\$ 0.61
Diluted	\$ (1.97)	\$ 0.34	\$ (1.58)	\$ 0.61
Basic weighted – average common shares outstanding:	32,379	32,268	32,365	32,331
Effect of dilutive securities	—	241	—	270
Diluted weighted – average common shares outstanding:	32,379	32,509	32,365	32,601
Cash dividends declared per share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net (loss) earnings	\$ (63,896)	\$ 11,073	\$ (51,031)	\$ 19,738
Other comprehensive earnings (loss):				
Changes in fair market value of derivatives, net of tax	(292)	909	100	(2,861)
Changes in unrealized pension cost, net of tax	72,530	1,239	90,976	3,733
Cumulative translation adjustment, net of tax	(10)	99	2	(54)
Other comprehensive earnings	\$ 72,228	\$ 2,247	\$ 91,078	\$ 818
Comprehensive earnings	<u>\$ 8,332</u>	<u>\$ 13,320</u>	<u>\$ 40,047</u>	<u>\$ 20,556</u>

See notes to unaudited condensed consolidated financial statements.

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

	(Unaudited) September 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 128,527	\$ 91,773
Accounts receivable, net	78,210	80,981
Inventories, net	50,867	45,870
Other current assets	19,845	14,607
Total current assets	277,449	233,231
Property, plant and equipment, net	92,533	97,437
Operating lease assets, net	22,456	23,281
Other Assets		
Prepaid pension asset	50,638	56,642
Goodwill	109,798	109,497
Other intangible assets, net	72,236	79,121
Deferred income taxes	24,663	24,250
Other	2,200	2,590
Total other assets	259,535	272,100
Total Assets	\$ 651,973	\$ 626,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 48,976	\$ 50,489
Operating lease obligations	3,354	3,294
Accrued payroll and benefits	17,069	12,978
Accrued expenses and other liabilities	35,673	38,171
Total current liabilities	105,072	104,932
Long-term debt	50,000	54,600
Long-term operating lease obligations	22,262	23,163
Long-term pension obligations	7,114	7,466
Deferred income taxes	6,907	7,010
Other long-term obligations	3,244	5,196
Total Liabilities	194,599	202,367
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common stock	314,351	311,190
Additional contributed capital	40,958	41,654
Retained earnings	484,368	539,281
Accumulated other comprehensive loss	(4,842)	(95,921)
Total shareholders' equity before treasury stock	834,835	796,204
Treasury stock	(377,461)	(372,522)
Total shareholders' equity	457,374	423,682
Total Liabilities and Shareholders' Equity	\$ 651,973	\$ 626,049

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2021	September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	\$ (51,031)	\$ 19,738
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	20,231	19,819
Pension and other post-retirement plan expense	131,290	2,023
Stock-based compensation	4,106	2,164
Asset impairment charges	—	1,016
Restructuring non-cash charges	—	300
Deferred income taxes	(34,147)	(627)
Gain on foreign currency hedges, net of cash	(27)	(58)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	2,587	2,085
Inventories	(5,190)	960
Operating lease assets	825	917
Other assets	(5,334)	2,446
Accounts payable	(1,792)	1,423
Accrued payroll and benefits	3,810	2,928
Operating lease liabilities	(841)	(818)
Accrued expenses and other liabilities	(4,100)	(4,826)
Pension and other post-retirement plans	(270)	(193)
Net cash provided by operating activities	60,117	49,297
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(8,140)	(10,441)
Payments for acquisitions, net of cash acquired	(255)	—
Net cash used in investing activities	(8,395)	(10,441)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(597,200)	(3,322,550)
Proceeds from borrowings of long-term debt	592,600	3,329,150
Purchase of treasury stock	(4,939)	(8,080)
Dividends paid	(3,882)	(3,888)
Payments of contingent consideration	(500)	—
Taxes paid on behalf of equity award participants	(1,490)	(1,911)
Net cash used in financing activities	(15,411)	(7,279)
Effect of exchange rate changes on cash and cash equivalents	443	(78)
Net increase in cash and cash equivalents	36,754	31,499
Cash and cash equivalents at beginning of period	91,773	100,241
Cash and cash equivalents at end of period	\$ 128,527	\$ 131,740
Supplemental cash flow information:		
Cash paid for interest	\$ 1,047	\$ 2,124
Cash paid for income taxes, net	\$ 10,246	\$ 8,295
Non-cash financing and investing activities:		
Capital expenditures incurred but not paid	\$ 1,153	\$ 816

See notes to unaudited condensed consolidated financial statements.

CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - UNAUDITED
(in thousands of dollars)

The following summarizes the changes in total equity for the three and nine months ended September 30, 2021:

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances at December 31, 2020	<u>\$ 311,190</u>	<u>\$ 41,654</u>	<u>\$ 539,281</u>	<u>\$ (95,921)</u>	<u>\$ (372,522)</u>	<u>\$ 423,682</u>
Net earnings	—	—	11,990	—	—	11,990
Changes in fair market value of derivatives, net of tax	—	—	—	124	—	124
Changes in unrealized pension cost, net of tax	—	—	—	1,422	—	1,422
Cumulative translation adjustment, net of tax	—	—	—	12	—	12
Cash dividends of \$0.04 per share	—	—	(1,294)	—	—	(1,294)
Issued shares on vesting of restricted stock units	1,818	(3,218)	—	—	—	(1,400)
Stock compensation	—	1,180	—	—	—	1,180
Balances at March 31, 2021	<u>\$ 313,008</u>	<u>\$ 39,616</u>	<u>\$ 549,977</u>	<u>\$ (94,363)</u>	<u>\$ (372,522)</u>	<u>\$ 435,716</u>
Net earnings	—	—	875	—	—	875
Changes in fair market value of derivatives, net of tax	—	—	—	268	—	268
Changes in unrealized pension cost, net of tax	—	—	—	17,024	—	17,024
Cumulative translation adjustment, net of tax	—	—	—	1	—	1
Cash dividends of \$0.04 per share	—	—	(1,299)	—	—	(1,299)
Issued shares on vesting of restricted stock units	1,333	(1,413)	—	—	—	(80)
Stock compensation	—	1,804	—	—	—	1,804
Balances at June 30, 2021	<u>\$ 314,341</u>	<u>\$ 40,007</u>	<u>\$ 549,553</u>	<u>\$ (77,070)</u>	<u>\$ (372,522)</u>	<u>\$ 454,309</u>
Net loss	—	—	(63,896)	—	—	(63,896)
Changes in fair market value of derivatives, net of tax	—	—	—	(292)	—	(292)
Changes in unrealized pension cost, net of tax	—	—	—	72,530	—	72,530
Cumulative translation adjustment, net of tax	—	—	—	(10)	—	(10)
Cash dividends of \$0.04 per share	—	—	(1,289)	—	—	(1,289)
Acquired 148,035 shares of treasury stock	—	—	—	—	(4,939)	(4,939)
Issued shares on vesting of restricted stock units	10	(20)	—	—	—	(10)
Stock compensation	—	971	—	—	—	971
Balances at September 30, 2021	<u>\$ 314,351</u>	<u>\$ 40,958</u>	<u>\$ 484,368</u>	<u>\$ (4,842)</u>	<u>\$ (377,461)</u>	<u>\$ 457,374</u>

See notes to unaudited condensed consolidated financial statements.

CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - UNAUDITED
(in thousands of dollars)

The following summarizes the changes in total equity for the three and nine months ended September 30, 2020:

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances at December 31, 2019	\$ 307,932	\$ 43,689	\$ 509,766	\$ (91,726)	\$ (364,442)	\$ 405,219
Net earnings	—	—	3,808	—	—	3,808
Changes in fair market value of derivatives, net of tax	—	—	—	(4,414)	—	(4,414)
Changes in unrealized pension cost, net of tax	—	—	—	1,285	—	1,285
Cumulative translation adjustment, net of tax	—	—	—	(139)	—	(139)
Cash dividends of \$0.04 per share	—	—	(1,298)	—	—	(1,298)
Acquired 220,731 shares of treasury stock	—	—	—	—	(5,304)	(5,304)
Issued shares on vesting of restricted stock units	2,166	(4,069)	—	—	—	(1,903)
Stock compensation	—	212	—	—	—	212
Balances at March 31, 2020	\$ 310,098	\$ 39,832	\$ 512,276	\$ (94,994)	\$ (369,746)	\$ 397,466
Net earnings	—	—	4,857	—	—	4,857
Changes in fair market value of derivatives, net of tax	—	—	—	644	—	644
Changes in unrealized pension cost, net of tax	—	—	—	1,209	—	1,209
Cumulative translation adjustment, net of tax	—	—	—	(14)	—	(14)
Cash dividends of \$0.04 per share	—	—	(1,292)	—	—	(1,292)
Acquired 122,000 shares of treasury stock	—	—	—	—	(2,776)	(2,776)
Issued shares on vesting of restricted stock units	855	(855)	—	—	—	—
Stock compensation	—	798	—	—	—	798
Balances at June 30, 2020	\$ 310,953	\$ 39,775	\$ 515,841	\$ (93,155)	\$ (372,522)	\$ 400,892
Net earnings	—	—	11,073	—	—	11,073
Changes in fair market value of derivatives, net of tax	—	—	—	909	—	909
Changes in unrealized pension cost, net of tax	—	—	—	1,239	—	1,239
Cumulative translation adjustment, net of tax	—	—	—	99	—	99
Cash dividends of \$0.04 per share	—	—	(1,290)	—	—	(1,290)
Issued shares on vesting of restricted stock units	23	(31)	—	—	—	(8)
Stock compensation	—	1,052	—	—	—	1,052
Balances at September 30, 2020	\$ 310,976	\$ 40,796	\$ 525,624	\$ (90,908)	\$ (372,522)	\$ 413,966

See notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
(in thousands except for share and per share data)
September 30, 2021

NOTE 1 — Basis of Presentation and Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation ("CTS", "we", "our", "us" 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, 2020.

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. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The reclassifications had no impact on previously reported net earnings.

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Accounting Pronouncements Recently Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Simplifying the Accounting for Income Taxes*, as part of its simplification initiative to reduce the cost and complexity in accounting for income taxes. ASU 2019-12 removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of U.S. GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. We adopted this ASU on January 1, 2021 and it did not have a material impact on our financial statements.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting as it relates to our LIBOR indexed instruments. ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022, and an entity may elect to apply ASU 2020-04 for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. As a result of the reference rate reform, we have determined that we will modify our credit agreement and associated hedging relationships in order to effectively transition to an alternative reference rate prior to June 30, 2022. We continue evaluating the impact of the transition from LIBOR to an alternative reference interest rate in our financial instruments including the potential election of certain practical expedients.

NOTE 2 – Revenue Recognition

The core principle of Accounting Standard Codification (“ASC”) 606 *Revenue from Contracts with Customers* is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle:

- Identify the contract(s) with a customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price
- Recognize revenue when the performance obligations are met

We recognize revenue when the performance obligations specified in our contracts have been satisfied, after considering the impact of variable consideration and other factors that may affect the transaction price. Our contracts normally contain a single performance obligation that is fulfilled on the date of delivery or shipment based on shipping terms stipulated in the contract. We usually expect payment within 30 to 90 days from the shipping date, depending on our terms with the customer. Differences between the amount of revenue recognized and the amount invoiced, collected from, or paid to our customers are recognized as contract assets or liabilities. Contract assets will be reviewed for impairment when events or circumstances indicate that they may not be recoverable.

To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing the most likely amount method based on an analysis of historical experience and current facts and circumstances, which requires significant judgment. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

Disaggregated Revenue

The following table presents revenues disaggregated by the major markets we serve:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Transportation	\$ 62,342	\$ 65,277	\$ 209,750	\$ 164,940
Industrial	31,879	24,204	87,764	65,260
Medical	12,409	10,201	36,487	32,609
Aerospace & Defense	11,275	11,038	35,724	29,416
Telecom & IT	4,477	3,057	10,669	8,824
Total	\$ 122,382	\$ 113,777	\$ 380,394	\$ 301,049

NOTE 3 – Business Acquisitions

On December 30, 2020, we acquired 100% of the outstanding shares of Sensor Scientific, Inc. (“SSI”). SSI is a manufacturer of high-quality thermistors and temperature sensor assemblies serving original equipment manufacturers (“OEMs”) for applications that require precision and reliability in the medical, industrial and defense markets. SSI has complementary capabilities with our existing temperature sensing platform and the acquisition expands our presence in the medical and industrial end markets. It also provides high quality ceramic processing capabilities and valuable customer partnerships that expand our temperature sensing product portfolio and build on our strategy to focus on innovative products that sense, connect and move.

The final purchase price, which includes changes in working capital, of \$10,221 has been allocated to the fair values of assets and liabilities acquired as of December 30, 2020.

The following table summarizes the consideration paid and the fair values of the assets acquired, and the liabilities assumed as of the date of acquisition of SSI:

	Consideration Paid
Cash paid, net of cash acquired of \$470	\$ 8,221
Contingent consideration	2,000
Purchase price	<u>\$ 10,221</u>
	Fair Values at December 30, 2020
Current assets	\$ 2,551
Property, plant and equipment	67
Other assets	14
Goodwill	3,321
Intangible assets	<u>5,340</u>
Fair value of assets acquired	11,293
Less fair value of liabilities acquired	<u>(1,072)</u>
Purchase price	<u>\$ 10,221</u>

Goodwill represents value the Company expects to be created by combining the operations of the acquired business with the Company's operations, including the expansion of customer relationships, access to new customers, and potential cost savings and synergies. Goodwill related to the acquisition is expected to be deductible for tax purposes.

All contingent consideration is payable in cash and is based on success factors related to the integration process as well as upon the achievement of a revenue performance target through the year ending December 31, 2022, with the possibility of prorated interim payments. The Company recorded \$2,000 as the acquisition date fair value of the contingent consideration based on an estimate of the probability of achieving the performance targets. This represents the maximum amount of contingent consideration payable by the Company. This amount is also reflected as an addition to the purchase price and will be evaluated quarterly. Refer to Note 17 for further information on contingent consideration.

The following table summarizes the carrying amounts and weighted average lives of the acquired intangible assets:

	Carrying Value	Weighted Average Amortization Period
Customer lists/relationships	\$ 5,200	11.0
Technology and other intangibles	140	3.0
Total	<u>\$ 5,340</u>	

NOTE 4 – Accounts Receivable, net

The components of accounts receivable, net are as follows:

	As of	
	September 30, 2021	December 31, 2020
Accounts receivable, gross	\$ 79,628	\$ 81,745
Less: Allowance for credit losses	(1,418)	(764)
Accounts receivable, net	<u>\$ 78,210</u>	<u>\$ 80,981</u>

NOTE 5 – Inventories, net

Inventories, net consists of the following:

	As of	
	September 30, 2021	December 31, 2020
Finished goods	\$ 11,194	\$ 10,647
Work-in-process	18,725	16,927
Raw materials	30,637	24,893
Less: Inventory reserves	(9,689)	(6,597)
Inventories, net	\$ 50,867	\$ 45,870

NOTE 6 – Property, Plant and Equipment, net

Property, plant and equipment, net is comprised of the following:

	As of	
	September 30, 2021	December 31, 2020
Land and land improvements	\$ 1,095	\$ 1,095
Buildings and improvements	69,463	69,360
Machinery and equipment	239,329	233,743
Less: Accumulated depreciation	(217,354)	(206,761)
Property, plant and equipment, net	\$ 92,533	\$ 97,437

Depreciation expense for the nine months ended September 30, 2021 and September 30, 2020 was \$13,166 and \$13,003, respectively.

NOTE 7 – Retirement Plans**Pension Plans**

Net pension expense for our domestic and foreign plans included in other (expense) income, net in the Condensed Consolidated Statements of (Loss) Earnings is as follows:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net pension expense	\$ 107,447	\$ 666	\$ 131,227	\$ 1,996

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

	Domestic Pension Plans		Foreign Pension Plans	
	Three Months Ended		Three Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Service cost	\$ —	\$ —	\$ 6	\$ 8
Interest cost	385	1,443	4	6
Expected return on plan assets ⁽¹⁾	429	(2,454)	(3)	(3)
Amortization of loss	377	1,622	43	44
Settlement charges	106,206	—	—	—
Total expense, net	\$ 107,397	\$ 611	\$ 50	\$ 55

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

	Domestic Pension Plans		Foreign Pension Plans	
	Nine Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Service cost	\$ —	\$ —	\$ 18	\$ 23
Interest cost	2,856	4,329	12	19
Expected return on plan assets ⁽¹⁾	(1,742)	(7,362)	(9)	(10)
Amortization of loss	3,694	4,866	129	131
Settlement charges	126,269	—	—	—
Total expense, net	\$ 131,077	\$ 1,833	\$ 150	\$ 163

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

In February 2020, the CTS Board of Directors authorized management to explore termination of the U.S.-based pension plan ("Plan"), subject to certain conditions. On June 1, 2020, we entered into the Fifth Amendment to the Plan whereby we set an effective termination date for the Plan of July 31, 2020. In February 2021, we received a determination letter from the Internal Revenue Service that allowed us to proceed with the termination process for the Plan. During the second quarter of 2021, the Company offered the option of receiving a lump sum payment to eligible participants with vested qualified Plan benefits in lieu of receiving monthly annuity payments. Approximately 365 participants elected to receive the settlement, and lump sum payments of approximately \$35,594 were made from Plan assets to these participants in June 2021.

As required under U.S. GAAP, the Company recognizes a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the existing unrealized gain or loss immediately prior to the settlement. In general, both the projected benefit obligation and fair value of plan assets are required to be remeasured in order to determine the settlement gain or loss.

Upon the partial settlement of the pension liability due to the lump sum offering in the second quarter of 2021, the Company recognized a non-cash and non-operating settlement charge of \$20,063 related to pension losses, reclassified from accumulated other comprehensive loss to other (income) expense in the Company's Condensed Consolidated Statements of (Loss) Earnings.

On July 29, 2021, the Plan purchased a group annuity contract that transferred our benefit obligations for approximately 2,700 CTS participants and beneficiaries in the United States ("Transferred Participants"). As part of the purchase of the group annuity contract, Plan benefit obligations and related annuity administration services for Transferred Participants were irrevocably assumed and guaranteed by the insurance company effective as of August 3, 2021. There will be no change to pension benefits for Transferred Participants. The purchase of the group annuity contract was fully funded directly by Plan assets.

As a result of the final settlement of the pension liability with the purchase of annuities, we reclassified the remaining related unrecognized pension losses of \$106,206 that were previously recorded in accumulated other comprehensive loss to the Condensed Consolidated Statements of (Loss) Earnings.

The Plan assets of \$50,638 as of September 30, 2021, will remain in the Plan until final administrative tasks are completed. This process is expected to be completed in the first quarter of 2022, whereby the Plan assets will liquidate and revert to CTS. At that time, the funds will be subject to income and excise taxes. We continue to evaluate potential plans to optimize tax implications as well as the use of the surplus cash.

Other Post-retirement Benefit Plan

Net post-retirement expense for our other post-retirement plan includes the following components:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Service cost	\$ —	\$ 1	\$ —	\$ 1
Interest cost	20	30	63	90
Amortization of gain	—	(20)	—	(64)
Total expense, net	\$ 20	\$ 11	\$ 63	\$ 27

NOTE 8 – Goodwill and Other Intangible Assets

Other Intangible Assets

Other intangible assets, net consist of the following components:

	As of September 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer lists/relationships	\$ 96,889	\$ (47,790)	\$ 49,099
Technology and other intangibles	47,441	(24,304)	23,137
Other intangible assets, net	\$ 144,330	\$ (72,094)	\$ 72,236
Amortization expense for the three months ended September 30, 2021		\$ 2,348	
Amortization expense for the nine months ended September 30, 2021		\$ 7,065	

	As of December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer lists/relationships	\$ 97,355	\$ (44,002)	\$ 53,353
Technology and other intangibles	47,301	(21,533)	25,768
Other intangible assets, net	\$ 144,656	\$ (65,535)	\$ 79,121
Amortization expense for the three months ended September 30, 2020		\$ 2,253	
Amortization expense for the nine months ended September 30, 2020		\$ 6,816	

Remaining amortization expense for other intangible assets as of September 30, 2021 is as follows:

	Amortization expense
2021	\$ 2,348
2022	9,176
2023	7,170
2024	7,008
2025	6,787
Thereafter	39,747
Total amortization expense	\$ 72,236

Goodwill

Changes in the net carrying amount of goodwill were as follows:

	Total
Goodwill as of December 31, 2020	\$ 109,497
Decrease from purchase accounting adjustments	(129)
Increase due to acquisition	430
Goodwill as of September 30, 2021	<u>\$ 109,798</u>

In addition to the purchase accounting adjustments from the SSI transaction, goodwill increased due to an acquisition completed during the second quarter. The purchase price was approximately \$510, with \$255 paid in the second quarter of 2021 and an additional \$255 to be paid in the second quarter of 2022.

NOTE 9 – Costs Associated with Exit and Restructuring Activities

Restructuring charges are reported as a separate line within operating earnings in the Condensed Consolidated Statements of (Loss) Earnings.

Total restructuring charges are as follows:

	Three Months Ended	
	September 30, 2021	September 30, 2020
Restructuring charges	\$ 319	\$ 1,041

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Restructuring charges	\$ 551	\$ 1,416

September 2020 Plan

In September 2020, we initiated a restructuring plan focused on optimizing our manufacturing footprint and improving operational efficiency by better utilizing our systems capabilities (the "September 2020 Plan"). This plan includes transitioning certain administrative functions to a shared service center, realignment of manufacturing locations, and certain other efficiency improvement actions. The restructuring cost of the September 2020 Plan is now estimated to be in the range of \$3,500 to \$4,500, including workforce reduction charges, building and equipment relocation charges and other contract and asset-related costs. We have incurred \$1,397 program to date. There were no substantial restructuring charges under the September 2020 Plan during the three and nine months ended September 30, 2021. There was no restructuring liability related to the September 2020 Plan as of September 30, 2021. As of December 31, 2020 the liability related to the September 2020 Plan was \$512.

June 2016 Plan

In June 2016, we announced plans to restructure operations by phasing out production at our Elkhart, Indiana facility and transitioning it into a research and development center supporting our global operations (the "June 2016 Plan"). Additional organizational changes were also implemented in various other locations. In 2017, we revised the June 2016 Plan to include an additional \$1,100 in planned costs related to the relocation of our corporate headquarters in Lisle, Illinois and our plant in Bolingbrook, Illinois, both of which have now been consolidated into a single facility. These restructuring actions were completed as of March 31, 2021.

April 2014 Plan

In April 2014, we announced plans to restructure our operations and consolidate our Canadian operations into other existing facilities as part of our overall plan to simplify our business model and rationalize our global footprint (the "April 2014 Plan"). These restructuring actions were substantially completed during 2015 and the remaining liability was settled in the second quarter of 2021.

Other Restructuring Activities

From time to time we undertake other restructuring activities that are not part of a formal plan. Charges associated with these restructuring activities primarily relate to workforce reduction costs. During the three and nine months ended September 30, 2021, we incurred restructuring charges of \$319 and \$582, respectively. During the three and nine months ended September 30, 2020, we incurred restructuring charges of \$33 and \$440, respectively. The total restructuring liability associated with these actions was \$263 at September 30, 2021 and \$9 at December 31, 2020.

The following table displays the restructuring liability activity included in accrued expenses and other liabilities for all plans for the nine months ended September 30, 2021:

Restructuring liability at January 1, 2021	\$	1,363
Restructuring charges		551
Cost paid		(1,466)
Other activity(1)		(185)
Restructuring liability at September 30, 2021	\$	263

(1) Other activity includes the effects of currency translation, non-cash asset write-downs and other charges that do not flow through restructuring expense.

NOTE 10 – Accrued Expenses and Other Liabilities

The components of accrued expenses and other liabilities are as follows:

	As of	
	September 30, 2021	December 31, 2020
Accrued product related costs	\$ 3,430	\$ 4,470
Accrued income taxes	6,213	7,320
Accrued property and other taxes	1,892	2,478
Accrued professional fees	1,594	1,663
Accrued customer related liabilities	4,459	3,815
Dividends payable	1,292	1,291
Remediation reserves	9,994	10,642
Derivative liabilities	684	671
Other accrued liabilities	6,115	5,821
Total accrued expenses and other liabilities	\$ 35,673	\$ 38,171

NOTE 11 – Commitments and Contingencies

Certain processes in the manufacture of our current and past products create by-products classified as hazardous waste. We have been notified by the U.S. Environmental Protection Agency, state environmental agencies and, in some cases, groups of potentially responsible parties, that we may be potentially liable for environmental contamination at several sites currently and formerly owned or operated by us. Two of those sites, Asheville, North Carolina and Mountain View, California, are designated National Priorities List sites under the U.S. Environmental Protection Agency's Superfund program. We accrue a liability for probable remediation activities, claims and proceedings against us with respect to environmental matters if the amount can be reasonably estimated, and provide disclosures including the nature of a loss whenever it is probable or reasonably possible that a potentially material loss may have occurred but cannot be estimated. We record contingent loss accruals on an undiscounted basis.

A roll-forward of remediation reserves included in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets is comprised of the following:

	As of	
	September 30, 2021	December 31, 2020
Balance at beginning of period	\$ 10,642	\$ 11,444
Remediation expense	848	2,769
Net remediation payments	(1,508)	(3,639)
Other activity(1)	12	68
Balance at end of the period	\$ 9,994	\$ 10,642

(1) Other activity includes currency translation adjustments not recorded through remediation expense.

Unrelated to the environmental claims described above, certain other legal claims are pending against us with respect to matters arising out of the ordinary conduct of our business.

We provide product warranties when we sell our products and accrue for estimated liabilities at the time of sale. Warranty estimates are forecasts based on the best available information and historical claims experience. We accrue for specific warranty claims if we believe that the facts of a specific claim make it probable that a liability in excess of our historical experience has been or will be incurred, and provide disclosures for specific claims whenever it is reasonably possible that a material loss may be incurred which cannot be estimated.

We cannot provide assurance that the ultimate disposition of environmental, legal, and product warranty claims will not materially exceed the amount of our accrued losses and adversely impact our consolidated financial position, results of operations, or cash flows. Our accrued liabilities and disclosures will be adjusted accordingly if additional information becomes available in the future.

NOTE 12 - Debt

Long-term debt was comprised of the following:

	As of	
	September 30, 2021	December 31, 2020
Total credit facility	\$ 300,000	\$ 300,000
Balance outstanding	50,000	54,600
Standby letters of credit	1,740	1,740
Amount available, subject to covenant restrictions	\$ 248,260	\$ 243,660
Weighted-average interest rate	1.18%	1.92%
Commitment fee percentage per annum	0.20%	0.23%

On February 12, 2019, we entered into an amended and restated five-year Credit Agreement with a group of banks (the "Credit Agreement") to extend the term of the facility. The Credit Agreement provides for a revolving credit facility of \$300,000, which may be increased by \$150,000 at the request of the Company, subject to the administrative agent's approval.

The revolving credit facility includes a swing line sublimit of \$15,000 and a letter of credit sublimit of \$10,000. Borrowings under the revolving credit facility bear interest at the base rate defined in the Credit Agreement. We also pay a quarterly commitment fee on the unused portion of the revolving credit facility. The commitment fee ranges from 0.20% to 0.30% based on our total leverage ratio.

The Credit Agreement requires, among other things, that we comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure to comply with these covenants could reduce the borrowing availability under the revolving credit facility. We were compliant with all debt covenants at September 30, 2021. The Credit Agreement requires that we deliver quarterly financial statements, annual financial statements, auditor certifications, and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, it contains restrictions limiting our ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with our subsidiaries and affiliates; and make stock repurchases and dividend payments. Interest rates on the credit facility fluctuate based upon LIBOR and the Company's quarterly total leverage ratio.

We have debt issuance costs related to our long-term debt that are being amortized using the straight-line method over the life of the debt. Amortization expense for the three and nine months ended September 30, 2021 and 2020 was approximately \$42 and \$42 and \$126 and \$126, respectively. These costs are included in interest expense in our Condensed Consolidated Statements of (Loss) Earnings.

We use interest rate swaps to convert the revolving credit facility's variable rate of interest into a fixed rate on a portion of the debt as described more fully in Note 13 "Derivative Financial Instruments". These swaps are treated as cash flow hedges and consequently, the changes in fair value were recorded in other comprehensive earnings.

Note 13 - Derivative Financial Instruments

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. We selectively use derivative financial instruments including foreign currency forward contracts and interest rate swaps to manage our exposure to these risks.

The use of derivative financial instruments exposes the Company to credit risk, which relates to the risk of nonperformance by a counterparty to the derivative contracts. We manage our credit risk by entering into derivative contracts with only highly rated financial institutions and by using netting agreements.

The effective portion of derivative gains and losses are recorded in accumulated other comprehensive (loss) income until the hedged transaction affects earnings upon settlement, at which time they are reclassified to cost of goods sold or net sales. If it is probable that

an anticipated hedged transaction will not occur by the end of the originally specified time period, we reclassify the gains or losses related to that hedge from accumulated other comprehensive (loss) income to other expense, net.

We assess hedge effectiveness qualitatively by verifying that the critical terms of the hedging instrument and the forecasted transaction continue to match, and that there have been no adverse developments that have increased the risk that the counterparty will default. No recognition of ineffectiveness was recorded in our Condensed Consolidated Statements of (Loss) Earnings for the three and nine months ended September 30, 2021.

Foreign Currency Hedges

We use forward contracts to mitigate currency risk related to a portion of our forecasted foreign currency revenues and costs. The currency forward contracts are designed as cash flow hedges and are recorded in the Condensed Consolidated Balance Sheets at fair value.

We continue to monitor the Company's overall currency exposure and may elect to add cash flow hedges in the future. At September 30, 2021, we had a net unrealized gain of \$388 in accumulated other comprehensive (loss) income, of which \$385 is expected to be reclassified to earnings within the next 12 months. At September 30, 2020, we had a net unrealized loss of \$458 in accumulated other comprehensive (loss) income. The notional amount of foreign currency forward contracts outstanding was \$6,282 at September 30, 2021.

Interest Rate Swaps

We use interest rate swaps to convert a portion of our revolving credit facility's outstanding balance from a variable rate of interest to a fixed rate. As of September 30, 2021, we have agreements to fix interest rates on \$50,000 of long-term debt through February 2024. The difference to be paid or received under the terms of the swap agreements will be recognized as an adjustment to interest expense when settled.

These swaps are treated as cash flow hedges and consequently, the changes in fair value are recorded in other comprehensive (loss) income. The estimated net amount of the existing losses that are reported in accumulated other comprehensive (loss) income that are expected to be reclassified into earnings within the next twelve months is approximately \$527.

The location and fair values of derivative instruments designated as hedging instruments in the Condensed Consolidated Balance Sheets as of September 30, 2021, are shown in the following table:

	As of	
	September 30, 2021	December 31, 2020
Interest rate swaps reported in accrued expenses and other liabilities	\$ (684)	\$ (671)
Interest rate swaps reported in other long-term obligations	\$ (726)	\$ (1,546)
Foreign currency hedges reported in other current assets	\$ 474	\$ 1,125

The Company has elected to net its foreign currency derivative assets and liabilities in the balance sheet in accordance with ASC 210-20, *Balance Sheet, Offsetting*. On a gross basis, there were foreign currency derivative assets of \$474 and foreign currency derivative liabilities of \$0 at September 30, 2021.

The effect of derivative instruments on the Condensed Consolidated Statements of (Loss) Earnings is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Foreign Exchange Contracts:				
Amounts reclassified from AOCI to earnings:				
Net sales	\$ —	\$ (78)	\$ —	\$ (5)
Cost of goods sold	442	(407)	992	(678)
Selling, general and administrative expense	—	—	—	(5)
Total gain (loss) reclassified from AOCI to earnings	442	(485)	992	(688)
Gain recognized in other expense for hedge ineffectiveness	—	—	—	3
Total derivative gain (loss) on foreign exchange contracts recognized in earnings	\$ 442	\$ (485)	\$ 992	\$ (685)
Interest Rate Swaps:				
(Expense) recorded in Interest expense	\$ (191)	\$ (171)	\$ (554)	\$ (242)
Total gains (losses) on derivatives	\$ 251	\$ (656)	\$ 438	\$ (927)

NOTE 14 – Accumulated Other Comprehensive (Loss) Income

Shareholders' equity includes certain items classified as accumulated other comprehensive (loss) income ("AOCI") in the Condensed Consolidated Balance Sheets, including:

- **Unrealized gains (losses) on hedges** relate to interest rate swaps to convert a portion of our revolving credit facility's outstanding balance from a variable rate of interest into a fixed rate and foreign currency forward contracts used to hedge our exposure to changes in exchange rates affecting certain revenues and costs denominated in foreign currencies. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transactions occur, at which time amounts are reclassified into earnings. Further information related to our derivative financial instruments is included in Note 13 - Derivative Financial Instruments and Note 17 – Fair Value Measurements.
- **Unrealized gains (losses) on pension obligations** are deferred from income statement recognition until the gains or losses are realized. Amounts reclassified to income from AOCI are included in net periodic pension income (expense). Further information related to our pension obligations is included in Note 7 – Retirement Plans.
- **Cumulative translation adjustments** relate to our non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. We are required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.

Changes in exchange rates between the functional currency and the currency in which a transaction is denominated are foreign exchange transaction gains or losses. Transaction losses for the three and nine months ended September 30, 2021 were \$(1,011) and \$(1,412), respectively, and transaction gains for the three and nine months ended September 30, 2020 were \$2,326 and \$1,947, respectively, which have been included in other (expense) income in the Condensed Consolidated Statements of (Loss) Earnings.

The components of accumulated other comprehensive (loss) income for the three months ended September 30, 2021 are as follows:

	As of June 30, 2021	Gain (Loss) Recognized in OCI	(Gain) Loss Reclassified from AOCI to Earnings	As of September 30, 2021
Changes in fair market value of derivatives:				
Gross	\$ (529)	\$ (128)	\$ (251)	\$ (908)
Income tax benefit (expense)	123	29	58	210
Net	(406)	(99)	(193)	(698)
Changes in unrealized pension cost:				
Gross	(104,052)	(5,450)	106,622	(2,880)
Income tax benefit (expense)	29,411	1,254	(29,896)	769
Net	(74,641)	(4,196)	76,726	(2,111)
Cumulative translation adjustment:				
Gross	(2,023)	(10)	—	(2,033)
Total accumulated other comprehensive (loss) income	\$ (77,070)	\$ (4,305)	\$ 76,533	\$ (4,842)

The components of accumulated other comprehensive (loss) income for the three months ended September 30, 2020, are as follows:

	As of June 30, 2020	Gain (Loss) Recognized in OCI	Loss Reclassified from AOCI to Earnings	As of September 30, 2020
Changes in fair market value of derivatives:				
Gross	\$ (4,239)	\$ 525	\$ 656	\$ (3,058)
Income tax benefit (expense)	978	(122)	(150)	706
Net	(3,261)	403	506	(2,352)
Changes in unrealized pension cost:				
Gross	(120,906)	—	1,606	(119,300)
Income tax benefit (expense)	33,278	—	(367)	32,911
Net	(87,628)	—	1,239	(86,389)
Cumulative translation adjustment:				
Gross	(2,266)	99	—	(2,167)
Total accumulated other comprehensive (loss) income	\$ (93,155)	\$ 502	\$ 1,745	\$ (90,908)

The components of accumulated other comprehensive (loss) income for the nine months ended September 30, 2021, are as follows:

	As of December 31, 2020	Gain (Loss) Recognized in OCI	(Gain) Loss Reclassified from AOCI to Earnings	As of September 30, 2021
Changes in fair market value of derivatives:				
Gross	\$ (1,038)	\$ 568	(438)	\$ (908)
Income tax benefit (expense)	240	(131)	101	210
Net	(798)	437	(337)	(698)
Changes in unrealized pension cost:				
Gross	(128,004)	(4,951)	130,075	(2,880)
Income tax benefit (expense)	34,917	1,139	(35,287)	769
Net	(93,087)	(3,812)	94,788	(2,111)
Cumulative translation adjustment:				
Gross	(2,036)	3	—	(2,033)
Total accumulated other comprehensive (loss) income	\$ (95,921)	\$ (3,372)	\$ 94,451	\$ (4,842)

The components of accumulated other comprehensive (loss) income for the nine months ended September 30, 2020, are as follows:

	As of December 31, 2019	Gain Recognized in OCI	Loss Reclassified from AOCI to Earnings	As of September 30, 2020
Changes in fair market value of derivatives:				
Gross	\$ 659	\$ (4,647)	\$ 930	\$ (3,058)
Income tax benefit (expense)	(150)	1,059	(203)	706
Net	509	(3,588)	727	(2,352)
Changes in unrealized pension cost:				
Gross	(124,140)	—	4,840	(119,300)
Income tax benefit (expense)	34,018	—	(1,107)	32,911
Net	(90,122)	—	3,733	(86,389)
Cumulative translation adjustment:				
Gross	(2,211)	44	—	(2,167)
Income tax benefit (expense)	98	(98)	—	0
Net	(2,113)	(54)	—	(2,167)
Total accumulated other comprehensive (loss) income	\$ (91,726)	\$ (3,642)	\$ 4,460	\$ (90,908)

NOTE 15 – Shareholders' Equity

Share count and par value data related to shareholders' equity are as follows:

	As of	
	September 30, 2021	December 31, 2020
Preferred Stock		
Par value per share	No par value	No par value
Shares authorized	25,000,000	25,000,000
Shares outstanding	—	—
Common Stock		
Par value per share	No par value	No par value
Shares authorized	75,000,000	75,000,000
Shares issued	57,235,807	57,076,410
Shares outstanding	32,288,149	32,276,787
Treasury stock		
Shares held	24,947,658	24,799,623

On May 13, 2021, the Board of Directors approved a new share repurchase program that authorizes the Company to repurchase up to \$50,000 of the Company's common stock. The repurchase program has no set expiration date and replaces the repurchase program approved by the Board of Directors on February 7, 2019. During the nine months ended September 30, 2021, 148,035 shares of common stock were repurchased for \$4,939. During the nine months ended September 30, 2020, 342,731 shares of common stock were repurchased for \$8,080. Approximately \$45,061 is available for future purchases.

A roll-forward of common shares outstanding is as follows:

	Nine months ended	
	September 30, 2021	September 30, 2020
Balance at the beginning of the year	32,276,787	32,472,406
Repurchases	(148,035)	(342,731)
Restricted share issuances	159,397	138,276
Balance at the end of the period	32,288,149	32,267,951

Certain potentially dilutive restricted stock units are excluded from diluted (loss) earnings per share because they are anti-dilutive. The number of outstanding awards that were anti-dilutive for the nine months ended September 30, 2021 and 2020 were 1,029 and 68,198, respectively. There were 462 anti-dilutive awards outstanding for the three months ended September 30, 2021 and no anti-dilutive awards outstanding the three months ended September 30, 2020.

NOTE 16 - Stock-Based Compensation

At September 30, 2021, we had five active stock-based compensation plans: the Non-Employee Directors' Stock Retirement Plan ("Directors' Plan"), the 2004 Omnibus Long-Term Incentive Plan ("2004 Plan"), the 2009 Omnibus Equity and Performance Incentive Plan ("2009 Plan"), the 2014 Performance and Incentive Compensation Plan ("2014 Plan"), and the 2018 Equity and Incentive Compensation Plan ("2018 Plan"). Future grants can only be made under the 2018 Plan.

These plans allow for grants of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance shares, performance units, and other stock awards subject to the terms of the specific plans under which the awards are granted.

The following table summarizes the compensation expense included in selling, general and administrative expenses in the Condensed Consolidated Statements of (Loss) Earnings related to stock-based compensation plans:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Service-based RSUs	\$ 588	\$ 580	\$ 2,013	\$ 1,939
Performance-based RSUs	383	472	1,942	123
Cash-settled RSUs	16	67	151	102
Total	\$ 987	\$ 1,119	\$ 4,106	\$ 2,164
Income tax benefit	227	257	945	497
Net expense	\$ 760	\$ 862	\$ 3,161	\$ 1,667

The following table summarizes the unrecognized compensation expense related to non-vested RSUs by type and the weighted-average period in which the expense is to be recognized:

	Unrecognized Compensation Expense at September 30, 2021	Weighted-Average Period (years)
Service-based RSUs	\$ 1,818	1.38
Performance-based RSUs	2,988	1.80
Total	\$ 4,806	1.64

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.

The following table summarizes the status of these plans as of September 30, 2021:

	2018 Plan	2014 Plan	2009 Plan	2004 Plan	Directors' Plan
Awards originally available	2,500,000	1,500,000	3,400,000	6,500,000	N/A
Maximum potential RSU and cash settled awards outstanding	611,278	35,100	45,200	14,545	4,722
Maximum potential awards outstanding	611,278	35,100	45,200	14,545	4,722
RSUs and cash settled awards vested and released	117,633	—	—	—	—
Awards available for grant	1,771,089	—	—	—	—

Service-Based Restricted Stock Units

The following table summarizes the service-based RSU activity for the nine months ended September 30, 2021:

	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2020	367,428	\$ 21.28
Granted	68,065	32.93
Vested and released	(151,946)	20.91
Forfeited	(15,506)	29.17
Outstanding at September 30, 2021	268,041	\$ 24.00
Releasable at September 30, 2021	116,933	\$ 15.86

Performance and Market-Based Restricted Stock Units

The following table summarizes the performance and market-based RSU activity for the nine months ended September 30, 2021:

	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2020	225,559	\$ 28.97
Granted	83,237	34.44
Attained by performance	18,107	28.33
Released	(53,137)	28.33
Forfeited	(43,099)	27.71
Outstanding at September 30, 2021	230,667	\$ 31.28
Releasable at September 30, 2021	196,748	\$ 32.62

Cash-Settled Restricted Stock Units

Cash-Settled RSUs entitle the holder to receive the cash equivalent of one share of common stock for each unit when the unit vests. These RSUs are issued to key employees residing in foreign locations as direct compensation. Generally, these RSUs vest over a three-year period. Cash-Settled RSUs are classified as liabilities and are remeasured at each reporting date until settled. At September 30, 2021 and December 31, 2020 we had 32,085 and 30,009 cash-settled RSUs outstanding, respectively. At September 30, 2021 and December 31, 2020, liabilities of \$276 and \$396, respectively, were included in accrued expenses and other liabilities on our Condensed Consolidated Balance Sheets.

NOTE 17 — Fair Value Measurements

The table below summarizes our financial liabilities that were measured at fair value on a recurring basis at September 30, 2021:

	(Liability) Asset Carrying Value at September 30, 2021	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	\$ (1,410)	\$ —	\$ (1,410)	\$ —
Foreign currency hedges	\$ 474	\$ —	\$ 474	\$ —
Contingent consideration	\$ (1,350)	\$ —	\$ —	\$ (1,350)

The table below summarizes the financial assets that were measured at fair value on a recurring basis as of December 31, 2020:

	(Liability) Asset Carrying Value at December 31, 2020	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	\$ (2,217)	\$ —	\$ (2,217)	\$ —
Foreign currency hedges	\$ 1,125	\$ —	\$ 1,125	\$ —
Contingent consideration	\$ (2,000)	\$ —	\$ —	\$ (2,000)

We use interest rate swaps to convert a portion of our revolving credit facility's outstanding balance from a variable rate of interest into a fixed rate and foreign currency forward contracts to hedge the effect of foreign currency changes on certain revenues and costs denominated in foreign currencies. These derivative financial instruments are measured at fair value on a recurring basis. The fair value of our interest rate swaps, and foreign currency hedges were measured using standard valuation models using market-based observable inputs over the contractual terms, including forward yield curves, among others. There is a readily determinable market for these derivative instruments, but that market is not active and therefore they are classified within Level 2 of the fair value hierarchy.

The fair value of the contingent consideration requires significant judgment. The Company's fair value estimates used in the contingent consideration valuation are considered Level 3 fair value measurements. The fair value estimates were based on assumptions management believes to be reasonable, but that are inherently uncertain, including estimates of future revenues and timing of events and activities that are expected to take place. Refer to Note 3 for further discussion on contingent consideration.

A roll-forward of the contingent consideration is as follows:

	Contingent Consideration
Balance at December 31, 2020	\$ 2,000
Settled in cash	(500)
Reclassified to payable in accrued expenses and other liabilities	(150)
Balance at September 30, 2021	\$ 1,350
Less current portion in accrued expenses and other liabilities	(1,200)
Total long-term portion in other long-term obligations	\$ 150

Our long-term debt consists of debt outstanding under the revolving credit facility which is recorded at its carrying value. There is a readily determinable market for our long-term 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 approximates carrying value and was determined by valuing a similar hypothetical coupon bond and attributing that value to our long-term debt under the revolving credit facility.

NOTE 18 — Income Taxes

The effective tax rates for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Effective tax rate	28.9%	22.2%	32.5%	24.4%

Our effective income tax rate was 28.9% and 22.2% in the third quarters of 2021 and 2020, respectively. This increase is primarily attributed to a one-time settlement expense related to the final annuity purchase made for the CTS Corporation U.S. pension plan. The third quarter 2021 tax rate was higher than the U.S. statutory federal tax rate for the same reason noted above. The third quarter 2020 tax rate was higher than the U.S. statutory federal tax rate due to foreign withholding taxes, state taxes, and foreign earnings that are taxed at higher rates.

Our effective income tax rate was 32.5% and 24.4% in the nine months ended September 30, 2021 and 2020, respectively. This increase is primarily attributed to the settlement expenses related to lump sum payments made for the CTS Corporation U.S. Pension Plan termination process in the second and third quarters of 2021. The tax rate in the first nine months of 2021 was higher than the U.S. statutory federal tax rate for the same reason noted above. The tax rate in the first nine months of 2020 was higher than the U.S. statutory federal tax rate primarily due to the establishment of valuation allowances on certain U.S. tax credits and the Company's decision to no longer reinvest the earnings of its Taiwan subsidiary.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

(in thousands, except percentages and per share amounts)

The following discussion should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and notes included under Item 1, as well as our Consolidated Financial Statements and notes and related Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Overview

CTS Corporation (“CTS”, “we”, “our” or “us”) is a leading designer and manufacturer of products that Sense, Connect and Move. Our vision is to be a leading provider of sensing and motion devices as well as connectivity components, enabling an intelligent and seamless world. These devices are categorized by their ability to Sense, Connect or Move. Sense products provide vital inputs to electronic systems. Connect products allow systems to function in synchronization with other systems. Move products ensure required movements are effectively and accurately executed. We are committed to achieving our vision by continuing to invest in the development of products and technologies, and talent within these categories.

We manufacture sensors, actuators, and connectivity components in North America, Europe, and Asia. CTS provides engineered products to OEMs and tier one suppliers in the aerospace and defense, industrial, information technology, medical, telecommunications, and transportation markets.

There is an increasing proliferation of sensing and motion applications within various markets we serve. In addition, the increasing connectivity of various devices to the internet results in greater demand for communication bandwidth and data storage, increasing the need for our connectivity products. Our success is dependent on the ability to execute our strategy to support these trends. We are subject to challenges including periodic market softness, competition from other suppliers, changes in technology, and the ability to add new customers, launch new products or penetrate new markets.

COVID-19 Impact and Supply Chain Uncertainties

The COVID-19 pandemic and subsequent supply chain uncertainties have had a significant negative impact on the global economy in 2020 and 2021. This has disrupted the financial markets, negatively impacted the global supply chain and increased the cost of materials and operations, particularly within the global automotive industry. Key semiconductor chip and other critical part shortages continue to force original equipment manufacturers (“OEMs”) to shut down production, often on short notice. With customers changing orders on short notice, we run the risk of carrying excess inventory in these situations. These developments are outside of our control, remain highly uncertain, and cannot be predicted. We continue to actively monitor the ongoing impacts of the COVID-19 pandemic and supply chain issues and will seek to mitigate and minimize their impact on our business. We anticipate these challenges to continue to impact our results in 2021 and into 2022 and we remain cautious about the financial impact of these potential disruptions on our business.

Results of Operations: Third Quarter 2021 versus Third Quarter 2020

The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of (Loss) Earnings for the quarters ended September 30, 2021, and September 30, 2020:

	Three Months Ended				
	September 30, 2021	September 30, 2020	Percent Change	Percent of Net Sales – 2021	Percent of Net Sales – 2020
Net sales	\$ 122,382	\$ 113,777	7.6%	100.0%	100.0%
Cost of goods sold	76,720	76,871	(0.2)	62.7	67.6
Gross margin	45,662	36,906	23.7	37.3	32.4
Selling, general and administrative expenses	19,922	16,883	18.0	16.3	14.8
Research and development expenses	6,454	5,723	12.8	5.3	5.0
Restructuring charges	319	1,041	(69.4)	0.3	0.9
Total operating expenses	26,695	23,647	12.9	21.9	20.7
Operating earnings	18,967	13,259	43.1	15.5	11.7
Total other (expense) income, net	(108,786)	977	(11,234.7)	(88.9)	0.9
(Loss) earnings before income taxes	(89,819)	14,236	(730.9)	(73.4)	12.5
Income tax (benefit) expense	(25,923)	3,163	(919.6)	(21.2)	2.8
Net (loss) earnings	\$ (63,896)	\$ 11,073	(677.0)%	(52.2)%	9.7%
(Loss) earnings per share:					
Diluted net (loss) earnings per share	\$ (1.97)	\$ 0.34			

Net sales were \$122,382 in the third quarter of 2021, an increase of \$8,605 or 7.6% from the third quarter of 2020. Net sales growth was driven by the overall improvement in the economy.

Net sales to transportation markets decreased \$2,936 or 4.5%. The impact of the supply chain shortages and OEM shutdowns are expected to continue to have an adverse effect on our operations, primarily in the transportation end market. Net sales to other markets increased \$11,541 or 23.8%. The Sensor Scientific, Inc. ("SSI") acquisition, which was completed in December 2020, added \$1,780 in net sales for the quarter. Changes in foreign exchange rates increased net sales by \$1,279 year-over-year due to the U.S. Dollar depreciating compared to the Chinese Renminbi and Euro.

Gross margin as a percent of net sales was 37.3% in the third quarter of 2021 compared to 32.4% in the third quarter of 2020. The increase in gross margin was driven primarily by sales volume and mix. The third quarter of 2020 was impacted by the COVID-19 pandemic.

Selling, general and administrative ("SG&A") expenses were \$19,922 or 16.3% of net sales in the third quarter of 2021 versus \$16,883 or 14.8% of net sales in the third quarter of 2020. The 2020 SG&A expenses included savings from cost reduction measures we had implemented while 2021 saw those measures fully restored as well as higher costs from incentive compensation.

Research and development ("R&D") expenses were \$6,454 or 5.3% of net sales in the third quarter of 2021 compared to \$5,723 or 5.0% of net sales in the comparable quarter of 2020. The increase in overall R&D expenses is primarily due to changes in timing and mix of certain projects as well as cost actions implemented in Q2 2020.

Restructuring charges were \$319 or 0.3% of net sales in the third quarter of 2021 compared to \$1,041 or 0.9% of net sales in the third quarter of 2020. Expenses were higher in the prior year due to the initiation of a restructuring plan in the third quarter of 2020.

Operating earnings were \$18,967 or 15.5% of net sales in the third quarter of 2021 compared to operating earnings of \$13,259 or 11.7% of net sales in the third quarter of 2020 driven by sales volume and mix.

Other expense and income items are summarized in the following table:

	Three Months Ended	
	September 30, 2021	September 30, 2020
Interest expense	\$ (514)	\$ (857)
Interest income	230	217
Other (expense) income, net	(108,502)	1,617
Total other (expense) income, net	<u>\$ (108,786)</u>	<u>\$ 977</u>

Other (expense) income, net in the third quarter of 2021 was primarily driven by increased pension expense including \$106,206 in settlement charge from our U.S. pension plan termination process.

	Three Months Ended	
	September 30, 2021	September 30, 2020
Effective tax rate	<u>28.9%</u>	<u>22.2%</u>

Our effective income tax rate was 28.9% and 22.2% in the third quarters of 2021 and 2020, respectively. This increase is primarily attributable to the impact of the U.S. pension plan settlement charge taken in the third quarter of 2021.

Results of Operations: Nine Months ended September 30, 2021 versus Nine Months Ended September 30, 2020

The following table highlights changes in significant components of the Unaudited Condensed Consolidated Statements of (Loss) Earnings for the nine months ended September 30, 2021, and September 30, 2020:

	Nine Months Ended		Percent Change	Percent of Net Sales – 2021	Percent of Net Sales – 2020
	September 30, 2021	September 30, 2020			
Net sales	\$ 380,394	\$ 301,049	26.4%	100.0%	100.0%
Cost of goods sold	244,446	204,677	19.4	64.3	68.0
Gross margin	135,948	96,372	41.1	35.7	32.0
Selling, general and administrative expenses	59,184	48,310	22.5	15.6	16.0
Research and development expenses	18,170	18,653	(2.6)	4.8	6.2
Restructuring charges	551	1,416	(61.1)	0.1	0.5
Total operating expenses	77,905	68,379	13.9	20.5	22.7
Operating earnings	58,043	27,993	107.3	15.3	9.3
Total other expense, net	(133,674)	(1,874)	7033.1	(35.1)	(0.6)
(Loss) earnings before income taxes	(75,631)	26,119	(389.6)	(19.8)	8.7
Income tax (benefit) expense	(24,600)	6,381	(485.5)	(6.5)	2.1
Net (loss) earnings	<u>\$ (51,031)</u>	<u>\$ 19,738</u>	<u>(358.5)%</u>	<u>(13.4)%</u>	<u>6.6%</u>
(Loss) earnings per share:					
Diluted net (loss) earnings per share	<u>\$ (1.58)</u>	<u>\$ 0.61</u>			

Net sales were \$380,394 in the nine months ended September 30, 2021, an increase of \$79,345 or 26.4% from the nine months ended September 30, 2020. Net sales growth was driven by the overall improvement in the economy.

Net sales to transportation markets increased \$44,812 or 27.2%. Net sales to other markets increased \$34,533 or 25.4%. The SSI acquisition, which was completed in December 2020, added \$5,226 in net sales for the nine months ended September 30, 2021. Changes in foreign exchange rates increased net sales by \$6,456 year-over-year due to the U.S. Dollar depreciating compared to the Chinese Renminbi and Euro.

Gross margin as a percent of net sales was 35.7% for the nine months ended September 30, 2021 compared to 32.0% for the nine months ended September 30, 2020. The increase in gross margin was driven primarily by sales volume and mix. The first nine months of 2020 were also impacted significantly by the COVID-19 pandemic, particularly in the second quarter of 2020. We continue to experience significant inflation in material and freight costs as well as interruptions in the supply chain particularly due to the global

semiconductor chip and resin shortages impacting the operations of our business. The impact of the supply chain shortages and OEM shutdowns are expected to continue to have an adverse effect on our operations.

SG&A expenses were \$59,184 or 15.6% of net sales for the nine months ended September 30, 2021 versus \$48,310 or 16.0% of net sales for the nine months ended September 30, 2020. The 2020 year to date SG&A expenses include savings from cost reduction measures we had implemented while 2021 saw those measures fully restored as well as higher costs from incentive compensation.

R&D expenses were \$18,170 or 4.8% of net sales for the nine months ended September 30, 2021 compared to \$18,653 or 6.2% of net sales in the comparable period of 2020. The decrease in overall R&D expenses is primarily due to changes in timing and mix of certain projects.

Restructuring charges were \$551 or 0.1% of net sales for the nine months ended September 30, 2021 compared to \$1,416 or 0.5% of net sales for the nine months ended September 30, 2020. Expenses were higher in the prior year due to the initiation of a restructuring plan in the third quarter of 2020.

Operating earnings were \$58,043 or 15.3% of net sales for the nine months ended September 30, 2021 compared to operating earnings of \$27,993 or 9.3% of net sales for the nine months ended September 30, 2020. The change in operating earnings were driven by the items discussed above.

Other expense and income items are summarized in the following table:

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Interest expense	\$ (1,577)	\$ (2,617)
Interest income	689	852
Other expense, net	(132,786)	(109)
Total other expense, net	<u>\$ (133,674)</u>	<u>\$ (1,874)</u>

Other expense, net in the first nine months of 2021 was primarily driven by increased pension expense including \$126,269 in settlement charges from our U.S. pension plan termination process in the second and third quarters of 2021.

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Effective tax rate	<u>32.5%</u>	<u>24.4%</u>

Our effective income tax rate was 32.5% and 24.4% in the nine months ended September 30, 2021 and 2020, respectively. This increase is primarily attributable to the change in the mix of earnings by jurisdiction as well as \$126,269 in settlement charges from our U.S. pension plan termination process in the second and third quarters of 2021.

Liquidity and Capital Resources

Cash and cash equivalents were \$128,527 at September 30, 2021, and \$91,773 at December 31, 2020, of which \$123,430 and \$90,051, respectively, were held outside the United States. The increase in cash and cash equivalents of \$36,754 was primarily driven by cash generated from operating activities of \$60,117, which was partially offset by net payments on long-term debt of \$4,600, capital expenditures of \$8,140, dividends paid of \$3,882, taxes paid on behalf of equity award participants of \$1,490, payments of contingent consideration of \$500, and payments for acquisitions of \$255. Total long-term debt was \$50,000 as of September 30, 2021 and \$54,600 as of December 31, 2020. Total debt as a percentage of total capitalization, defined as long-term debt as a percentage of total debt and shareholders' equity, was 9.9% at September 30, 2021, compared to 11.4% at December 31, 2020.

Working capital increased by \$44,078 during the nine months ended September 30, 2021, primarily due to the increase in cash and cash equivalents from strong operating cash flows.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$60,117 during the nine months ended September 30, 2021. Components of net cash provided by operating activities included net loss of (\$51,031), depreciation and amortization expense of \$20,231, non-cash pension and other post-retirement plan expenses of \$131,290, and other net non-cash items of (\$30,068), and a net cash outflow from changes in assets and liabilities of \$10,305.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2021 was \$8,395, driven primarily by capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2021 was \$15,411. The net cash outflow was the result of a decrease in borrowings of long-term debt of \$4,600, dividends paid of \$3,882, taxes paid on behalf of equity award participants in the amount of \$1,490, repurchase of treasury stock of \$4,939, and payments of contingent consideration of \$500.

Capital Resources

Long-term debt is comprised of the following:

	As of	
	September 30, 2021	December 31, 2020
Total credit facility	\$ 300,000	\$ 300,000
Balance outstanding	50,000	54,600
Standby letters of credit	1,740	1,740
Amount available, subject to covenant restrictions	\$ 248,260	\$ 243,660
Weighted-average interest rate	1.18%	1.92%
Commitment fee percentage per annum	0.20%	0.23%

Our Credit Agreement provides for a revolving credit facility of \$300,000, which may be increased by \$150,000 at the request of the Company, subject to the administrative agent's approval.

We have entered into interest rate swap agreements to fix interest rates on \$50,000 of long-term debt through February 2024. The difference to be paid or received under the terms of the swap agreements is recognized as an adjustment to interest expense when settled.

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

Critical Accounting Policies and Estimates

Management prepared the Condensed Consolidated Financial Statements under accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions we used are reasonable, based upon the information available.

Our estimates and assumptions affect the reported amounts in our financial statements. The following accounting policies comprise those that we believe are the most critical in understanding and evaluating our reported financial results.

Revenue Recognition

Product revenue is recognized when the transfer of promised goods to a customer occurs in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. We follow the five-step model to determine when this transfer has occurred: 1) identify the contract(s) with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation.

Product Warranties

Provisions for estimated warranty expenses primarily related to our automotive products are made at the time products are sold. These estimates are established using a quoted industry rate. We adjust our warranty reserve for any known or anticipated warranty claims as new information becomes available. We evaluate our warranty obligations at least quarterly and adjust our accruals if it is probable that future costs will be different than our current reserve. Over the last three years, product warranty reserves have ranged from 0.5% to 2.7% of total sales. We believe our reserve level is appropriate considering all facts and circumstances surrounding any outstanding quality claims and our historical experience selling our products to our customers.

Accounts Receivable

We have standardized credit granting and review policies and procedures for all customer accounts, including:

- Credit reviews of all new customer accounts,
- Ongoing credit evaluations of current customers,
- Credit limits and payment terms based on available credit information,
- Adjustments to credit limits based upon payment history and the customer's current credit worthiness,
- An active collection effort by regional credit functions, reporting directly to the corporate financial officers, and
- Limited credit insurance on the majority of our international receivables.

We reserve for estimated credit losses based on historical experience, specific customer collection issues, current conditions and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual terms of our receivables and other financial assets. Over the last three years, accounts receivable reserves have been approximately 0.1% to 1.8% of total accounts receivable. We believe our reserve level is appropriate considering the quality of the portfolio. While credit losses have historically been within expectations of the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience or our current forecasts.

Inventories

We value our inventories at the lower of the actual cost to purchase or manufacture using the first-in, first-out ("FIFO") method, or net realizable value. We review inventory quantities on hand and record a provision for excess and obsolete inventory based on historical usage, forecasts of product demand and related production requirements.

Over the last three years, our reserves for excess and obsolete inventories have ranged from 10.2% to 16.0% of gross inventory. We believe our reserve level is appropriate considering the quantities and quality of the inventories.

Retirement Plans

Actuarial assumptions are used in determining pension income and expense and our defined benefit obligations. We utilize actuaries from consulting companies in each applicable country to develop our discount rates, matching 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 February 2020, the CTS Board of Directors authorized management to explore termination of the U.S.-based pension plan ("Plan"), subject to certain conditions. On June 1, 2020, we entered into the Fifth Amendment to the Plan whereby we set an effective termination date for the Plan of July 31, 2020. In February 2021, we received a determination letter from the Internal Revenue Service that allowed us to proceed with the termination process for the Plan. During the second quarter of 2021, the Company offered the option of receiving a lump sum payment to eligible participants with vested qualified Plan benefits in lieu of receiving monthly annuity payments. Approximately 365 participants elected to receive the settlement, and lump sum payments of approximately \$35,594 were made from Plan assets to these participants in June 2021.

As required under U.S. GAAP, the Company recognizes a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the existing unrealized gain or loss immediately prior to the settlement. In general, both the projected benefit obligation and fair value of plan assets are required to be remeasured in order to determine the settlement gain or loss.

Upon the partial settlement of the pension liability due to the lump sum offering in the second quarter of 2021, the Company recognized a non-cash and non-operating settlement charge of \$20,063 related to pension losses, reclassified from accumulated other comprehensive loss to other (income) expense in the Company's Condensed Consolidated Statements of (Loss) Earnings.

On July 29, 2021, the Plan purchased a group annuity contract that transferred our benefit obligations for approximately 2,700 CTS participants and beneficiaries in the United States ("Transferred Participants"). As part of the purchase of the group annuity contract, Plan benefit obligations and related annuity administration services for Transferred Participants were irrevocably assumed and guaranteed by the insurance company effective as of August 3, 2021. There will be no change to pension benefits for Transferred Participants. The purchase of the group annuity contract was fully funded directly by Plan assets.

As a result of the final settlement of the pension liability with the purchase of annuities, we reclassified the remaining related unrecognized pension losses of \$106,206 that were previously recorded in accumulated other comprehensive loss to the Condensed Consolidated Statements of (Loss) Earnings.

The Plan assets of \$50,638 as of September 30, 2021, will remain in the Plan until final administrative tasks are completed. This process is expected to be completed in the first quarter of 2022, whereby the Plan assets will liquidate and revert to CTS. At that time the funds will be subject to income and excise taxes. We continue to evaluate potential plans to optimize tax implications as well as the use of the surplus cash.

Impairment of Goodwill

Goodwill of a reporting unit is tested for impairment annually, or more frequently if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include, but are not limited to, the following:

- Significant decline in market capitalization relative to net book value,
- Significant adverse change in regulatory factors or in the business climate,
- Unanticipated competition,
- More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- Testing for recoverability of a significant asset group within a reporting unit, and
- Allocation of a portion of goodwill to a business to be disposed.

If we believe that one or more of the above indicators of impairment have occurred, we perform an impairment test. We have the option to perform a qualitative assessment (commonly referred to as "step zero" test) to determine whether further quantitative analysis for impairment of goodwill and indefinite-lived intangible assets is necessary. The qualitative assessment includes a review of macroeconomic conditions, industry and market considerations, internal cost factors, and our own overall financial and share price performance, among other factors. If, after assessing the totality of events or circumstances we determine that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, we do not need to perform a quantitative analysis.

If a quantitative assessment is required, we estimate the fair value of each reporting unit using a combination of discounted cash flow analysis and market-based valuation methodologies. Determining fair value using a quantitative approach requires significant judgment, including judgments about projected revenues, cash flows over a multi-year period, discount rates and estimated valuation multiples. The discount rate applied to our forecasts of future cash flows is based on our estimated weighted average cost of capital. In assessing the reasonableness of our determined fair values, we evaluate our results against our market capitalization. Changes in these estimates and assumptions could materially affect the determination of fair value and impact the goodwill impairment assessment.

Our latest assessment was performed using a quantitative approach as of October 1, 2020, and we determined that it was likely that the fair values of our reporting units were more than their carrying amounts, and therefore no impairment charges were recorded. We will monitor future results and will perform a test if indicators trigger an impairment review.

Impairment of Other Intangible and Long-Lived Assets

We evaluate the impairment of identifiable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered that may trigger an impairment review consist of, but are not limited to, the following:

- Significant decline in market capitalization relative to net book value,
- Significant under performance relative to expected historical or projected future operating results,
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business, and
- Significant negative industry or economic trends.

If we believe that one or more indicators of impairment have occurred, we perform a recoverability test by comparing the carrying amount of an asset or asset group to the sum of the undiscounted cash flows expected to result from the use and the eventual disposition of the asset or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. No indicators of impairment were identified during the quarter ended September 30, 2021.

Environmental and Legal Contingencies

U.S. GAAP requires a liability to be recorded for contingencies when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence and amounts of our environmental, legal and other contingent liabilities. We regularly consult with attorneys and consultants to determine the relevant facts and circumstances before we record a liability. Changes in laws, regulatory orders, cost estimates, participation of other parties, timing of payments, input of attorneys and consultants, or other circumstances may have a material impact on the recorded liability.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in the determination of consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including

scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. The assumptions about future taxable income require the use of significant judgment and are consistent with the plans and estimates we are using to manage our underlying businesses.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Accounting Standards Codification (“ASC”) No. 740 states that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, on the basis of its technical merits. We record unrecognized tax benefits as liabilities in accordance with ASC 740 and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

Our practice is to recognize interest and penalties related to income tax matters as part of income tax expense.

Following the enactment of the 2017 Tax Cut and Jobs Act and the associated one-time transition tax, in general, repatriation of foreign earnings to the U.S. can be completed with no incremental U.S. tax. However, there are limited other taxes that continue to apply such as foreign withholding and certain state taxes. The Company records a deferred liability for the estimated foreign earnings and state tax cost associated with the undistributed foreign earnings that are not permanently reinvested.

Significant Customers

Our net sales to customers representing at least 10% of total net sales is as follows:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cummins Inc.	14.3%	11.8%	14.8%	12.8%
Toyota Motor Corporation	10.0%	14.4%	12.3%	12.7%

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: the ultimate impact of the COVID-19 pandemic on our business, results of operations or financial condition, including, without limitation, supply chain disruptions; 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 transportation, telecommunications, and information technology industries, as well as conditions in the industrial, aerospace and defense, and medical markets; reliance on key customers; unanticipated public health crises, natural disasters or other events; environmental compliance and remediation expenses; 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 our 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of current market conditions resulting from the COVID-19 pandemic, refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition" hereof.

There have been no other material changes in our market risk from the disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within CTS have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting for the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we are involved in litigation with respect to matters arising from the ordinary conduct of our business, and currently certain claims are pending against us. In the opinion of management, we believe we have established adequate accruals pursuant to U.S. generally accepted accounting principles for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based on presently available information. However, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition, or cash flows.

See Note 11 "Commitments and Contingencies" in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no significant changes to our risk factors from those contained in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity

On May 13, 2021, the Board of Directors authorized a stock repurchase program with a maximum dollar limit of \$50 million. This program authorizes us to make repurchases of our common stock from time to time on the open market, but does not obligate us to make repurchases, and it has no expiration date. The authorization of the stock repurchase program replaced the stock repurchase program authorized by the Board of Directors on February 7, 2019.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
July 1, 2021 through July 31, 2021	37,400	\$ 34.23	37,400	\$ 48,720
August 1, 2021 through August 31, 2021	34,669	\$ 34.81	34,669	\$ 47,513
September 1, 2021 through September 30, 2021	75,966	\$ 32.28	75,966	\$ 45,061
Total	148,035	\$ 33.36	148,035	

Item 6. Exhibits

- (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.](#)
- 101.1 The following information from CTS Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 formatted in Inline XBRL: (i) Condensed Consolidated Statements of (Loss) Earnings for the three and nine months ended September 30, 2021 and 2020; (ii) Condensed Consolidated Statements of Comprehensive Earnings for the three and nine months ended September 30, 2021 and 2020; (iii) Condensed Consolidated Balance Sheets at September 30, 2021 and December 31, 2020; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020; (v) Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2021 and 2020; (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
- 104 The cover page from this Current Report on Form 10-Q formatted as inline XBRL

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

/s/ Thomas M. White

Thomas M. White
Corporate Controller
(Principal Accounting Officer)

CTS Corporation

/s/ Ashish Agrawal

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

Dated: October 27, 2021

Dated: October 27, 2021

CERTIFICATION

I, Kieran O'Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 27, 2021

/s/ Kieran O'Sullivan

Kieran O'Sullivan

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Ashish Agrawal, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 27, 2021

/s/Ashish Agrawal

Ashish Agrawal

Vice President and Chief Financial Officer

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

In connection with the quarterly report of CTS Corporation (the Company) on Form 10-Q for the quarter ended September 30, 2021, 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: October 27, 2021

/s/ Kieran O'Sullivan

Kieran O'Sullivan

Chairman, President and Chief Executive Officer

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

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

In connection with the quarterly report of CTS Corporation (the Company) on Form 10-Q for the quarter ended September 30, 2021, 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: October 27, 2021

/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.
