CTS CORP
Form 10-Q
October 27, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended October 3, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _______________ to _______________

Commission File Number: 1-4639

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

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

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

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 x No o

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

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

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

Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 25, 2010: 34,183,382.

CTS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
Net sales	$139,362	$126,565	$407,616	$365,094
Costs and expenses:				
Cost of goods sold	109,393	100,380	316,828	297,202
Selling, general and administrative expenses	17,112	16,494	54,944	48,357
Research and development expenses	5,086	3,408	13,985	10,227
Restructuring charge – Note I	—	—	—	2,243
Goodwill impairment	—	—	—	33,153
Operating earnings/(loss)	7,771	6,283	21,859	(26,088)
Other (expense)/income:				
Interest expense	(254)	(256)	(717)	(1,615)
Interest income	105	17	239	118
Other	1,738	(390)	917	(736)
Total other income/(expense)	1,589	(629)	439	(2,233)
Earnings/(loss) before income taxes	9,360	5,654	22,298	(28,321)
Income tax expense	2,445	1,173	5,060	9,872
Net earnings/(loss)	$6,915	$4,481	$17,238	$(38,193)
Net earnings/(loss) per share - Note J				
Basic	$0.20	$0.13	$0.51	$(1.13)
Diluted	$0.20	$0.13	$0.50	$(1.13)
Cash dividends declared per share	$0.03	$0.03	$0.09	$0.09
Average common shares outstanding:				
Basic	34,181	33,873	34,060	33,799
Diluted	34,827	34,513	34,816	33,799

See notes to unaudited condensed consolidated financial statements.

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

	October 3, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 73,031	$ 51,167
Accounts receivable, less allowances (2010 - $1,705; 2009- $2,119)	90,136	71,718
Inventories, net - Note D	76,562	54,348
Other current assets	19,325	16,502
Total current assets	259,054	193,735
Property, plant and equipment, less accumulated depreciation (2010 - $247,564; 2009 - $264,651)	79,409	81,120
Other Assets		
Prepaid pension asset	32,621	29,373
Goodwill – Note L	500	500
Other intangible assets, net – Note L	32,056	33,938
Deferred income taxes	66,662	68,331
Other	579	660
Total other assets	132,418	132,802
Total Assets	$ 470,881	$ 407,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 70,534	$ 52,344
Accrued liabilities	41,201	38,172
Total current liabilities	111,735	90,516
Long-term debt - Note E	77,100	50,400
Other long-term obligations	16,902	19,287
Shareholders' Equity		
Preferred stock - authorized 25,000,000 shares without par value; none issued	—	—
Common stock - authorized 75,000,000 shares without par value; 54,504,141 shares issued at October 3, 2010 and 54,213,931 shares issued at December 31, 2009	285,350	282,491
Additional contributed capital	36,886	37,675
Retained earnings	331,750	317,582
Accumulated other comprehensive loss	(91,833)	(93,285)
	562,153	544,463
Cost of common stock held in treasury (2010 and 2009 – 20,320,759 shares)	(297,009)	(297,009)
Total shareholders' equity	265,144	247,454
Total Liabilities and Shareholders' Equity	$ 470,881	$ 407,657

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended October 3, 2010	Nine Months Ended September 27, 2009
Cash flows from operating activities:		
Net earnings/(loss)	$ 17,238	(38,193)
Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities:		
Depreciation and amortization	13,244	14,919
Prepaid pension asset	(5,985)	(5,853)
Equity-based compensation – Note B	2,911	2,711
Restructuring and impairment charges – Note I	—	2,243
Goodwill impairment – Note L	—	33,153
Amortization of retirement benefit adjustments – Note F	3,646	3,942
Other	(987)	7,389
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	(17,929)	20,045
Inventories	(21,587)	11,031
Other current assets	(2,697)	1,600
Accounts payable and accrued liabilities	20,241	(18,936)
Total adjustments	(9,143)	72,244
Net cash provided by operating activities	8,095	34,051
Cash flows from investing activities:		
Earnout payment related to a 2008 acquisition	(500)	—
Capital expenditures	(10,505)	(4,681)
Proceeds from sales of assets	1,530	1,309
Net cash used in investing activities	(9,475)	(3,372)
Cash flows from financing activities:		
Payment of 2.125% Debentures	—	(32,500)
Payments of long-term debt – Note E	(2,488,950)	(2,141,050)
Proceeds from borrowings of long-term debt – Note E	2,515,650	2,142,550
Payments of short-term notes payable	(2,258)	(7,755)
Proceeds from borrowings of short-term notes payable	2,258	7,755
Dividends paid	(3,063)	(3,040)
Other	69	(929)
Net cash provided by/(used in) financing activities	23,706	(34,969)
Effect of exchange rate on cash and cash equivalents	(462)	(9)
Net increase/(decrease) in cash and cash equivalents	21,864	(4,299)
Cash and cash equivalents at beginning of year	51,167	44,628

Cash and cash equivalents at end of period	$	73,031	$	40,329
Supplemental cash flow information				
Cash paid during the period for:				
Interest	$	633	$	728
Income taxes—net	$	2,370	$	5,915

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
Net earnings/(loss)	$ 6,915	$ 4,481	$ 17,238	$ (38,193)
Other comprehensive earnings/(loss):				
Cumulative translation adjustment	1,090	(352)	(546)	1,925
Amortization of retirement benefit adjustments (net of tax)	582	779	1,998	2,253
Comprehensive earnings/(loss)	$ 8,587	$ 4,908	$ 18,690	$ (34,015)

See notes to unaudited condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
October 3, 2010

NOTE A – Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation (“CTS” or “the Company”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

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.

NOTE B – Equity-Based Compensation

At October 3, 2010, CTS had five equity-based compensation plans: the 1996 Stock Option Plan (“1996 Plan”), the 2001 Stock Option Plan (“2001 Plan”), the Nonemployee Directors’ Stock Retirement Plan (“Directors’ Plan”), the 2004 Omnibus Long-Term Incentive Plan (“2004 Plan”), and the 2009 Omnibus Equity and Performance Incentive Plan (“2009 Plan”). All of these plans, except the Directors’ Plan, were approved by shareholders. As of December 31, 2009, additional grants can only be made under the 2004 and 2009 Plans. CTS believes that equity based awards align the interest of employees with those of its shareholders.

The 2009 Plan, and previously the 1996 Plan, 2001 Plan and 2004 Plan, provides for grants of incentive stock options or nonqualified stock options to officers, key employees, and nonemployee members of CTS’ board of directors. In addition, the 2009 Plan and the 2004 Plan allows for grants of stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other stock awards.

The following table summarizes the compensation expense included in the Unaudited Condensed Consolidated Statements of Earnings/(Loss) for the three and nine months ended October 3, 2010 and September 27, 2009 relating to these plans:

	Three Months Ended		Nine Months Ended	
($ in thousands)	October 3 2010	September 27, 2009	October 3. 2010	September 27, 2009
Stock options	$—	$2	$3	$34
Restricted stock units	746	907	2,908	2,677
Total	$746	$909	$2,911	$2,711

The following table summarizes the status of these plans as of October 3, 2010:

	2009 Plan	2004 Plan	2001 Plan	1996 Plan
Awards originally available	3,400,000	6,500,000	2,000,000	1,200,000
Stock options outstanding	—	276,850	709,013	128,350
Restricted stock units outstanding	515,494	265,004	—	—
Options exercisable	—	276,850	709,013	128,350
Awards available for grant	2,751,449	268,500	—	—

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Stock Options

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

The Company estimates the fair value of the stock option on the grant date using the Black-Scholes option-pricing model and assumptions for expected price volatility, option term, risk-free interest rate, and dividend yield. Expected price volatilities are based on historical volatilities of the Company's stock. The expected option term is derived from historical data on exercise behavior. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of the status of stock options as of October 3, 2010 and September 27, 2009, and changes during the nine-month periods then ended, is presented below:

	October 3, 2010		September 27, 2009	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,179,088	$ 13.72	1,294,263	$ 14.53
Exercised	(17,000)	$ 7.70	—	$ —
Expired	(47,875)	$ 42.30	(109,675)	$ 21.45
Forfeited	—	$ —	—	$ —
Outstanding at end of period	1,114,213	$ 12.59	1,184,588	$ 13.89
Exercisable at end of period	1,114,213	$ 12.59	1,163,838	$ 13.89

The total intrinsic value of share options exercised during the nine-month period ended October 3, 2010 was $30,000. There were no share options exercised during the nine-month period ended September 27, 2009.

The weighted-average remaining contractual life of options outstanding and options exercisable at October 3, 2010 is 2.4 years. The aggregate intrinsic value of options outstanding and options exercisable at October 3, 2010 is approximately $550,000.

A summary of the nonvested stock options as of October 3, 2010 and September 27, 2009, and changes during the nine-month periods then ended, is presented below:

	October 3, 2010		September 27, 2009	
	Options	Weighted-average Grant-Date Fair Value	Options	Weighted-average Grant-Date Fair Value
Nonvested at beginning of year	20,750	$ 6.24	74,525	$ 6.36
Vested	(20,750)	$ 6.24	(53,775)	$ 6.41
Forfeited	—	$ —	—	$ —

Nonvested at end of period	—	$ —	20,750	$ 6.24

The total fair value of options vested during the nine-month periods ended October 3, 2010 and September 27, 2009 was approximately $130,000 and $345,000, respectively. As of October 3, 2010, there was no unrecognized compensation cost related to nonvested stock options. CTS recognized expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

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The following table summarizes information about stock options outstanding at October 3, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 10/3/10	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable At 10/3/10	Weighted Average Exercise Price
$ 7.70 – 11.11	708,663	2.89	$ 9.41	708,663	$ 9.41
$ 13.68 – 16.24	227,800	2.98	$ 14.12	227,800	$ 14.12
$ 23.00 – 25.10	177,250	0.55	$ 23.24	177,250	$ 23.24
$ 42.69	500	0.11	$ 42.69	500	$ 42.69

Service-Based Restricted Stock Units

Service-based restricted stock units (“RSUs”) entitle the holder to receive one share of common stock for each unit when the unit vests. RSUs are issued to officers and key employees as compensation. Generally, the RSUs vest over a three-year period. A summary of the status of RSUs as of October 3, 2010 and September 27, 2009, and changes during the nine-month periods then ended is presented below:

	October 3, 2010		September 27, 2009	
	RSUs	Weighted-average Grant-Date Fair Value	RSUs	Weighted-average Grant-Date Fair Value
Outstanding at beginning of year	854,745	$ 8.47	700,358	$ 10.76
Granted	282,200	$ 7.59	390,850	$ 6.09
Converted	(282,895)	$ 9.01	(217,991)	$ 10.70
Forfeited	(73,552)	$ 7.49	(22,180)	$ 1132
Outstanding at end of period	780,498	$ 8.39	851,037	$ 8.61
Weighted-average remaining contractual life	5.3 years		4.7 years	

CTS recorded compensation expense of approximately $471,000 and $2,015,000 related to service-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively. CTS recorded compensation expense of approximately $663,000 and $1,971,000 related to service-based restricted stock units during the three and nine month periods ended September 27, 2009, respectively.

As of October 3, 2010, there was $2.1 million of unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.2 years. CTS recognizes expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Performance-Based Restricted Stock Units

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

On February 5, 2008, CTS granted performance-based restricted stock unit awards to certain executives. Vesting may occur, if at all, at a rate from zero percent to 200% of the target amount of 42,200 units in 2010 subject to certification of the 2009 fiscal year results by CTS' independent auditors. Vesting is dependent upon CTS' achievement of sales growth targets. No awards were granted as the sales growth targets were not met.

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

CTS recorded compensation expense of approximately $87,000 and $264,000 related to performance-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively. CTS recorded compensation expense of approximately $34,000 and $85,000 related to performance-based restricted stock units during the three and nine month periods ended September 27, 2009, respectively. As of October 3, 2010 there was approximately $420,000 of unrecognized compensation cost related to performance-based RSUs. That cost is expected to be recognized over a weighted-average period 1.0 year.

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Market-Based Restricted Stock Units

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

On February 5, 2008, CTS granted market-based restricted stock unit awards for certain executives. In the first half of 2010, 57,300 restricted stock units were vested. Such vesting was dependent upon CTS' total stockholder return relative to 29 enumerated peer group companies' stockholder return rates.

On February 4, 2009, CTS granted market-based restricted stock unit awards for certain executives and key employees. Vesting may occur in the range from zero percent to 200% of the target amount of 128,000 units in 2011. Vesting is dependent upon CTS total stockholder return relative to 28 enumerated peer group companies' stockholder return rates.

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

CTS recorded compensation expense of approximately $188,000 and $629,000 related to market-based restricted stock units during the three and nine month periods ended October 3, 2010, respectively. CTS recorded compensation expense of approximately $210,000 and $621,000 related to market-based restricted stock units during the three and nine month periods ended September 27, 2009, respectively. As of October 3, 2010, there was approximately $800,000 of unrecognized compensation cost related to market-based RSUs. That cost is expected to be recognized over a weighted-average period of 1.0 year.

Stock Retirement Plan

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

NOTE C—Fair Value Measurement

The table below summarizes the financial liability that was measured at fair value on a recurring basis as of October 3, 2010:

($ in thousands)	Carrying Value at October 3, 2010	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term debt	$ 77,100	$ —	$ 77,100	$ —

The table below summarizes the financial liability that was measured at fair value on a recurring basis as of December 31, 2009:

($ in thousands)	Carrying Value at December 31, 2009	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term debt	$ 50,400	$ —	$ 50,400	$ —

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

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NOTE D – Inventories, net

Inventories consist of the following:

($ in thousands)	October 3, 2010	December 31, 2009
Finished goods	$ 6,357	$ 7,220
Work-in-process	17,331	12,941
Raw materials	52,874	34,187
Total inventories, net	$ 76,562	$ 54,348

NOTE E – Debt

Long-term debt was comprised of the following:

($ in thousands)	October 3, 2010	December 31, 2009
Revolving credit agreement, weighted-average interest rate of 1.0% (2010), and 1.1% (2009) due in 2011	$77,100	$50,400

On June 27, 2006, CTS entered into a $100 million, unsecured revolving credit agreement. Under the terms of the revolving credit agreement, CTS can expand the credit facility to $150 million, subject to participating banks' approval. There was $77.1 million and $50.4 million outstanding under the revolving credit agreement at October 3, 2010 and December 31, 2009, respectively. At October 3, 2010 and December 31, 2009, CTS had $20.1 million and $46.8 million available under this agreement, net of standby letters of credit of $2.8 million, respectively. Interest rates on the revolving credit agreement fluctuate based upon LIBOR and the Company's quarterly total leverage ratio. CTS pays a commitment fee on the undrawn portion of the revolving credit agreement. The commitment fee varies based on the quarterly leverage ratio and was .15 percent per annum at October 3, 2010. The revolving credit agreement requires, among other things, that CTS comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure of CTS to comply with these covenants could reduce the borrowing availability under the revolving credit agreement. CTS was in compliance with all debt covenants at October 3, 2010. The revolving credit agreement requires CTS to deliver quarterly financial statements, annual financial statements, auditors certifications and compliance certificates within a specified number of days after the end of a quarter and year-end. Additionally, the revolving agreement contains restrictions limiting CTS' ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with CTS' subsidiaries and affiliates; and the amounts allowed for stock repurchases and dividend payments. The revolving credit agreement expires in June 2011. CTS has the intent and ability to renew its obligation incurred under the revolving credit agreement for a period extending beyond one year from the balance-sheet date on or before the expiration date.

NOTE F – Retirement Plans

Net pension (income)/postretirement expense for the three and nine-months ended October 3, 2010 and September 27, 2009 include the following components:

($ in thousands)	Three Months Ended October 3, 2010	Three Months Ended September 27, 2009	Nine Months Ended October 3, 2010	Nine Months Ended September 27, 2009
PENSION PLANS				
Service cost	$746	$788	$2,236	$2,346
Interest cost	3,315	3,396	9,957	10,268
Expected return on plan assets (1)	(6,086)	(6,108)	(18,247)	(18,305)
Settlement cost	—	—	234	—
Amortization of prior service cost	153	126	663	378
Amortization of loss	993	1,198	2,983	3,640
Net pension income	$(879)	$(600)	$(2,174)	$(1,673)

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

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($ in thousands)	Three Months Ended October 3, 2010	Three Months Ended September 27, 2009	Nine Months Ended October 3, 2010	Nine Months Ended September 27, 2009
OTHER POSTRETIREMENT BENEFIT PLAN				
Service cost	$3	$3	$10	$8
Interest cost	75	78	225	235
Amortization of gain	—	(25)	—	(76)
Net postretirement expense	$78	$56	$235	$167

NOTE G – Segments

CTS' reportable segments are grouped by entities that exhibit similar economic characteristics and the segments' reporting results are regularly reviewed by CTS' chief operating decision maker to make decisions about resources to be allocated to these segments and to evaluate the segments' performance.

CTS has two reportable segments: 1) EMS and 2) Components and Sensors. EMS includes the higher level assembly of electronic and mechanical components into a finished subassembly or assembly performed under a contract manufacturing agreement with an original equipment manufacturer ("OEM") or other contract manufacturer. Additionally, for some customers, CTS provides full turnkey manufacturing and compl