

CTS CORP
Form DEF 14A
April 17, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

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Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

CTS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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1) Title of each class of securities to which transaction applies:

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April 17, 2013

Dear CTS Shareholder:

You are cordially invited to attend the 2013 Annual Meeting of Shareholders of CTS Corporation. The meeting will be held on Wednesday, May 22, 2013, at 9:30 a.m. Central Daylight Time, at CTS offices located at 2375 Cabot Drive, Lisle, IL 60532.

The official meeting notice, proxy statement, and proxy form are enclosed. These materials were first mailed to shareholders on or about April 17, 2013. We hope you will attend the meeting in person. Whether you plan to attend the meeting or not, we encourage you to read this proxy statement and vote your shares. The vote of every shareholder is important.

We look forward to seeing you at the meeting.

Vinod M. Khilnani
Executive Chairman of the Board

Kieran O. Sullivan
President and Chief Executive Officer

Notice of the 2013 Annual Meeting of Shareholders

To Be Held On

May 22, 2013

To CTS Shareholders:

The 2013 Annual Meeting of Shareholders of CTS Corporation will be held on Wednesday, May 22, 2013, at 9:30 a.m. Central Daylight Time, at CTS offices located at 2375 Cabot Drive, Lisle, IL 60532. To obtain directions to the meeting location, please call (574) 523-3841.

Only CTS shareholders of record at the close of business on April 5, 2013 may vote at this meeting or any adjournments that may take place. At the meeting, shareholders will vote upon the following items:

1. Election of nine directors for the ensuing year;
2. Approval, on an advisory basis, of the compensation of CTS named executive officers;
3. Ratification of the appointment of Grant Thornton LLP as CTS independent auditor for 2013; and
4. Any other business properly presented at the meeting.

Your Board of Directors recommends that you vote in favor of the director-nominees, in favor of approval of CTS named executive officer compensation and in favor of the ratification of the appointment of Grant Thornton LLP.

By Order of the Board of Directors,

John R. Dudek
Corporate Secretary

April 17, 2013

Your vote is important.

Please date, sign, and promptly mail the enclosed proxy card.

No postage is required if mailed in the United States.

You may also vote via the internet by following the instructions on your proxy card.

PROXY STATEMENT

2013 ANNUAL MEETING OF SHAREHOLDERS

To be held on

May 22, 2013

This proxy statement was first mailed to shareholders on or about April 17, 2013, and is furnished in connection with the solicitation by the Board of Directors (Board) of CTS Corporation (CTS or the Company) of proxies to be voted at the 2013 Annual Meeting of Shareholders (Annual Meeting). The following is important information in a question-and-answer format regarding the Annual Meeting and this proxy statement.

Q: Upon what may I vote?

- A: (1) Election of director-nominees to serve on the Board;
- (2) Approval, on an advisory basis, of the compensation of CTS named executive officers; and
- (3) Ratification of the appointment of Grant Thornton LLP as CTS independent auditor for 2013.

Q: How does the Board recommend that I vote?

- A: The Board recommends that you vote:
- (1) FOR each of the director-nominees identified in this proxy statement;
- (2) FOR approval of CTS named executive officer compensation; and
- (3) FOR ratification of Grant Thornton LLP as CTS independent auditor for 2013.

Q: How will voting on any other business be conducted?

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A: We are not aware of any other business to be brought before the shareholders at the Annual Meeting other than as described in this proxy statement. However, if any other business is properly presented for shareholder consideration, your signed proxy card gives authority to Kieran O Sullivan, President and Chief Executive Officer, and John R. Dudek, Vice President, General Counsel & Corporate Secretary, to vote on those matters at their discretion.

Q: How many votes are needed for approval of each proposal presented in this proxy statement?

A: Assuming that at least a majority of the shares of CTS common stock are represented at the Annual Meeting, either in person or by proxy:

- (1) The nine director-nominees receiving the most votes will be elected. Only votes cast for a nominee will have an impact on the election of directors, because abstentions, broker non-votes, and instructions on your proxy to withhold authority to vote for one or more of the nominees will result in those nominees receiving fewer votes;

- 1 -

- (2) An affirmative vote of a majority of votes cast is necessary to approve, on an advisory basis, the compensation of CTS named executive officers, although such vote will not be binding on CTS. Abstentions and broker non-votes will have no impact on the outcome of this proposal; and
- (3) The Audit Committee's appointment of Grant Thornton LLP as CTS independent auditor for 2013 will be ratified if a majority of the votes cast support the appointment. Because the proposal to ratify the appointment of Grant Thornton LLP is considered routine, your broker or other nominee will be able to vote your shares with respect to this proposal without your instructions. Abstentions have no impact on the outcome of this proposal.

Q: Who is entitled to vote?

A: Shareholders of record at the close of business on April 5, 2013, which is referred to in this proxy statement as the Record Date, are entitled to vote at the Annual Meeting. As of close of business on the Record Date, there were 33,560,492 shares of CTS common stock issued and outstanding. Every shareholder is entitled to one vote for each share of CTS common stock held on the Record Date.

Q: How do I vote?

A: Please mark, sign and date your proxy card and return it at your earliest convenience in the prepaid envelope provided. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the director-nominees, FOR approval of CTS named executive officer compensation and FOR ratification of Grant Thornton LLP as CTS independent auditor for 2013. Even if you return your proxy card, you still have the right to revoke your proxy or change your vote at any time before the Annual Meeting. If you wish to revoke your proxy or change your vote you must notify CTS Corporate Secretary by returning a later-dated proxy card. You may also vote by internet at www.proxyvote.com up until 11:59 p.m. Eastern Daylight Time on May 19, 2013. Please have your proxy card in hand and follow the instructions on the website. Of course, you may always vote in person at the meeting.

Q: How can I vote shares of CTS common stock that I hold under the CTS Corporation Retirement Savings Plan?

A: The CTS Corporation Retirement Savings Plan is CTS 401(k) plan. Vanguard Fiduciary Trust Company, the plan trustee, will vote the shares of CTS common stock in your account according to your instructions. You may use the proxy card provided or go online at www.proxyvote.com to instruct Vanguard. You must provide instructions or make changes to your instructions on how to vote shares of CTS common stock in your CTS Corporation Retirement Savings Plan on or before 11:59 p.m. Eastern Daylight Time on May 19, 2013. After that time, your instructions will be transmitted to the plan trustee and cannot be changed. If Vanguard does not receive your instructions for how to vote your shares of CTS common stock, they will not be voted.

Q: Who solicits proxies and how much will this proxy solicitation cost?

A: In February 2013, CTS hired Eagle Rock Proxy Advisors LLC to solicit votes for a fee of \$6,000. CTS also reimburses Eagle Rock for reasonable expenses, fees charged by banks, brokers and other custodians, fiduciaries, and nominees for their costs of sending proxy and solicitation materials to our shareholders. Broadridge, Inc. also distributes proxy materials on CTS behalf and is reimbursed by CTS for mailing and distribution expenses. In addition, proxies may be solicited by executive officers of CTS, for which no additional compensation is paid.

Q: Other members of my household and I hold shares of CTS common stock in street name and we received only one copy of the proxy statement and one annual report. How can we receive additional copies of these materials?

A: Under the Securities and Exchange Commission's householding rules, a corporation or broker who provides notice may deliver a single copy of the proxy statement and annual report to shareholders who share an address unless a shareholder submits contrary instructions. If you would prefer to receive separate copies of these documents in the future, you may notify your broker or you may direct a written or oral request to CTS Corporation, Investor Relations, 905 West Boulevard North, Elkhart, Indiana 46514; you can call (574) 523-3800 and ask to speak to our Investor Relations staff; or you may send an e-mail to shareholder.services@ctscorp.com. If your household is currently receiving multiple copies of the proxy statement and annual report and you would prefer to receive only a single copy in the future, you may notify your broker or direct a request to the address, phone number, or e-mail address immediately above.

Q: How may a shareholder nominate a candidate for election to the Board?

A: Director-nominees for the 2014 Annual Meeting of Shareholders may be nominated by shareholders by sending a written notice to the corporate office to the attention of the Corporate Secretary for CTS. Pursuant to the CTS Corporation Bylaws, all nominations must be received no earlier than January 7, 2014 and no later than February 21, 2014. The notice of nomination is required to contain certain representations and information about the nominee, which are described in CTS Bylaws. Upon request, copies of the Bylaws may be obtained free of charge from CTS Corporate Secretary, or from CTS website at <http://www.ctscorp.com/governance/bylaws.htm>.

Q: When are shareholder proposals for the 2014 Annual Meeting of Shareholders due?

A: CTS advance notice Bylaw provisions require that in order to be presented at the 2014 Annual Meeting of Shareholders, any shareholder proposal, including the nomination of a candidate for director, must be in writing and mailed to the corporate office to the attention of the Corporate Secretary for CTS, and must be received no earlier than January 7, 2014 and no later than February 21, 2014. Certain information is required to be included with shareholder proposals, which is described in CTS Bylaws. Upon request, copies of the Bylaws may be obtained free of charge from CTS Corporate Secretary, or from CTS website at <http://www.ctscorp.com/governance/bylaws.htm>. To be included in our proxy materials relating to the 2014 Annual Meeting of Shareholders, proposals must be received by us on or before December 18, 2013 (or, if the date of the 2014 Annual Meeting of Shareholders is more than 30 days before or after the date of the 2013 Annual Meeting of Shareholders, a reasonable time before we begin to print and send our proxy materials).

PROPOSALS UPON WHICH YOU MAY VOTE

1. ELECTION OF DIRECTORS;
2. APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF CTS NAMED EXECUTIVE OFFICERS; AND
3. RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS CTS INDEPENDENT AUDITOR FOR 2013.
Your Board recommends a vote FOR the director-nominees, FOR advisory approval of CTS

named executive officer compensation and FOR the ratification of the appointment

of Grant Thornton LLP.

PROPOSAL 1: ELECTION OF DIRECTORS

CTS Articles of Incorporation provide that the number of directors will be between three and fifteen, as fixed from time-to-time by the Board. The Board has established the number of authorized directors at nine, effective as of the Annual Meeting of Shareholders. There are nine director-nominees for election. Detailed information on each is provided below. All directors are elected annually and serve one-year terms or until their successors are elected and qualified.

Nominees for the Board of Directors. Each director-nominee named below is currently a director of CTS. The ages shown are as of April 17, 2013, the date on which this proxy statement was first mailed to shareholders. Each director-nominee has agreed to serve as a director if elected. If one or more of the nominees become unavailable for election, the members of the Board will, in their sole discretion and pursuant to authority granted by the CTS Bylaws, nominate and vote for a replacement director or reduce the authorized number of directors.

WALTER S. CATLOW

Director since 1999

Age 68

Mr. Catlow is the retired Dean of the College of Business at Concordia University. Mr. Catlow served as President of Ameritech Cellular Services, a wireless communications service provider, from 1998 until his retirement in 2000. Prior to that, Mr. Catlow served as Executive Vice President of Ameritech and as President of Ameritech International, Inc., where he directed Ameritech International's investments and was responsible for global acquisitions and alliances. The Board believes Mr. Catlow's experience in international business, his experience in the wireless communications infrastructure industry, and his experience as a top level executive make him well qualified to serve as a director.

LAWRENCE J. CIANCIA

Director since 1990

Age 70

Mr. Ciancia has been a partner in Corporate Development International, Inc., a corporate search firm specializing in mergers, acquisitions, and divestitures, since 1998. Previously, Mr. Ciancia served as President of Uponor ETI, a supplier of PVC pipe products, specialty chemicals and PVC compounds. The Board believes Mr. Ciancia's experience in international mergers and acquisitions and his experience as a top level executive make him well qualified to serve as a director.

THOMAS G. CODY

Director since 1998

Age 71

Mr. Cody is the Lead Independent Director of the Board. He is also a retired Vice Chairman of Macy's, Inc. (formerly known as Federated Department Stores, Inc.), a nationwide department store retailer, serving from February 2003 through March 2010. Prior to assuming that position, he served as Executive Vice President, Legal and Human Resources of Federated Department Stores, Inc. since 1992. Until May 2008, Mr. Cody was also a director of LCA Vision, Inc. The Board believes that Mr. Cody's extensive legal, tax, human resources, and top level executive experience, garnered in service of a major New York Stock Exchange (NYSE) listed corporation, as well as his experience serving as a director of another public company, make him well qualified to serve as a director.

PATRICIA K. COLLAWN

Director since 2003

Age 54

Ms. Collawn is Chairman, President and Chief Executive Officer of PNM Resources, Inc., a multi-state utilities corporation serving electricity customers. Ms. Collawn was named Chairman effective January 1, 2011. In March 2010, she was made a director of PNM Resources, Inc. She was President and Chief

Operating Officer since August 2008 and Utilities President at PNM Resources, Inc. from June 2007 to August 2008. Prior to that, Ms. Collawn was President and Chief Executive Officer of Public Service Company of Colorado, an Xcel Energy, Inc. subsidiary, from October 2005. The Board believes that Ms. Collawn's experience as a sitting President and Chief Executive Officer of a publicly traded corporation, as well as substantial operations experience, make her well qualified to serve as a director.

MICHAEL A. HENNING

Director since 2000

Age 72

Mr. Henning is the retired Deputy Chairman of Ernst & Young LLP, an independent accounting firm, serving from 1999 to 2000. Mr. Henning served as Chief Executive Officer of Ernst & Young International, Inc. from 1993 until 1999. Mr. Henning also serves as a director of Omnicom Group, Inc., Landstar System, Inc., and Black Diamond, Inc. (formerly Clarus Corporation). Until October 2009, Mr. Henning was a director of Highlands Acquisition Corporation. The Board believes that Mr. Henning's substantial international tax and accounting experience garnered through service with one of the world's preeminent accounting firms, and his experience serving as a director of other companies, make him well qualified to serve as a director. Mr. Henning's tax and accounting acumen also enable his service as CTS's audit committee financial expert.

GORDON HUNTER

Director Since 2011

Age 61

Mr. Hunter is the Chairman, President and Chief Executive Officer of Littelfuse, Inc., a global electronics company. Mr. Hunter has served as a director of Littelfuse, Inc. since June 2002, and joined the company as Chief Operating Officer in November 2003. He assumed the role of Chairman, President, and Chief Executive Officer of Littelfuse, Inc. on January 1, 2005. He is currently a member of the Board of Directors of Veeco Instruments, Inc., where he serves on its Compensation Committee. Mr. Hunter also serves on the Council of Advisors of Shure Incorporated. The Board believes that Mr. Hunter's experience as a sitting President and Chief Executive Officer of a publicly traded corporation serving global markets, as well as substantial experience in the electronics industry, make him well qualified to serve as a director.

DIANA M. MURPHY

Director since 2010

Age 56

Ms. Murphy is the Managing Director of Rocksolid Holdings, LLC, a private equity firm, serving in that capacity since January 2007. She is also the managing director of the Georgia Research Alliance Venture Fund. Prior to joining Rocksolid, she was a Managing Director at Chartwell Capital Management Company, a private equity firm. She is a Director of Landstar System, Inc., Georgia Research Alliance Venture Fund, LLC, and the Coastal Bank of Georgia, along with other private and non-profit boards. She is a member of the Executive Committee and Treasurer of the United States Golf Association. The Board believes that Ms. Murphy's extensive experience in business management, strategic planning, marketing, public relations, and experience on the boards of other companies make her well qualified to serve as a director.

KIERAN O SULLIVAN

Director since 2013

Age 51

Mr. O Sullivan is the President and Chief Executive Officer of CTS. Prior to assuming this role on January 7, 2013, Mr. O Sullivan served as Executive Vice President of Continental AG's Global Infotainment and Connectivity Business and led the NAFTA Interior Division, having joined Continental AG, a global automotive supplier, in 2006. The Board believes that Mr. O Sullivan's over twenty-five years of leadership experience in operations, strategy, mergers and acquisitions, and finance roles in the manufacturing services, electronics, and automotive business segments make him well qualified to serve as a director.

ROBERT A. PROFUSEK

Age 63

Director since 1998

Mr. Profusek is the Head of Mergers & Acquisitions for Jones Day, a global law firm which he joined in 1975. Mr. Profusek also serves as the Lead Director of Valero Energy Corporation and is a member of the company's Compensation Committee and Nominating and Governance Committee. He previously served as a director of two other NYSE-listed companies. The Board believes that Mr. Profusek's substantial experience in mergers and acquisitions, corporate governance, and experience serving as a director of other companies make him well qualified to serve as a director.

Your Board recommends a vote FOR each of these director-nominees.

PROPOSAL 2: APPROVAL OF THE COMPENSATION OF CTS

NAMED EXECUTIVE OFFICERS

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Securities Exchange Act of 1934 (Exchange Act), our Board of Directors is submitting a Say-on-Pay proposal for shareholder consideration. The Compensation Discussion and Analysis section of this proxy statement (which begins on page 18) describes CTS' executive compensation program and the compensation decisions made by the Compensation Committee and the Board in 2012 with respect to our named executive officers. CTS is asking shareholders to cast an advisory shareholder vote approving the compensation of CTS' named executive officers (commonly referred to as a say-on-pay vote). Under current Board policy, the shareholder vote for advisory approval of named executive officer compensation will occur annually. The next such vote will occur at our 2014 annual meeting of shareholders.

As we describe in the Compensation Discussion and Analysis section of this proxy statement, CTS' executive compensation program is designed to attract, retain, and motivate high-quality executive talent, to provide executives with strong incentives to maximize CTS' performance, and to align executives' interests with those of shareholders. These goals are achieved through the application of a number of techniques, such as:

balancing fixed pay versus incentive-based compensation appropriately;

selecting appropriate and broad-based performance metrics;

establishing reasonable performance thresholds;

capping performance-based compensation awards at certain maximum levels;

requiring multiple-year performance periods for performance-based awards; and

vesting a significant amount of equity compensation over multi-year periods.

CTS has not substantially changed its overall approach to executive compensation through the recent economic downturn and the start of the economic recovery, remaining committed to the use of broad-based metrics such as earnings per share, strategic business unit operating earnings, sales growth and relative total shareholder return in measuring corporate performance.

For these reasons, the Board is asking shareholders to vote FOR the following resolution: **RESOLVED**, that the compensation of the named executive officers as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables, and any related material disclosed in this proxy

statement, is hereby approved. While the advisory vote we are asking you to cast is non-binding, the Compensation Committee and the Board value the views of our shareholders and expect to take into account the outcome of the vote when considering future compensation decisions for our named executive officers.

Your Board recommends a vote FOR the approval of CTS named executive officer compensation.

PROPOSAL 3: RATIFICATION OF APPOINTMENT OF GRANT THORNTON LLP AS INDEPENDENT AUDITOR FOR 2013

Grant Thornton LLP has served as CTS independent auditor since June 2005 and has been appointed by the Audit Committee to continue as CTS independent auditor for 2013. In the event that ratification of the appointment of Grant Thornton LLP as independent auditor for 2013 is not approved by the shareholders at the Annual Meeting, the Board will review the Audit Committee's future selection of independent auditors.

Representatives of Grant Thornton LLP will be present at the Annual Meeting. The representatives will be available to respond to appropriate questions. The representatives will also be afforded an opportunity at that time to make such statements as they desire.

Your Board recommends a vote FOR ratification of the appointment of Grant Thornton LLP as independent auditor for 2013.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about shares of CTS common stock that could be issued under all of CTS equity compensation plans as of December 31, 2012:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights⁽¹⁾	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity compensation plans approved by security holders	1,487,288	\$ 10.91	2,041,195
Equity compensation plans not approved by security holders ⁽²⁾	37,241		
Total	1,524,529		2,041,195

⁽¹⁾ The first and total rows of this column include 1,094,738 restricted stock units representing time-based and performance-based awards, which are settled in CTS common stock. These 1,094,738 units have no bearing on the weighted-average exercise price in column (b).

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- ⁽²⁾ In 1990, CTS adopted the Stock Retirement Plan for Non-Employee Directors. Prior to December 1, 2004, CTS annually credited an account for each non-employee director with 800 CTS common stock units. CTS also annually credited each deferred stock account with an additional number of CTS common stock units representing the amount of dividends which would have been paid on an

equivalent number of shares of CTS common stock for each quarter during the preceding calendar year. As of December 1, 2004, this plan was amended to preclude crediting any additional CTS common stock units under the plan. Upon retirement, a participating non-employee director is entitled to receive one share of CTS common stock for each CTS common stock unit in his deferred stock account. On December 31, 2012, the deferred stock accounts contained a total of 37,241 CTS common stock units.

SECTION 16(a) BENEFICIAL

OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires CTS directors, executive officers, and certain persons who own more than 10% of the outstanding shares of CTS common stock to file with the Securities and Exchange Commission and the NYSE initial reports of ownership and reports of changes in ownership of CTS common stock. Executive officers, directors and holders of at least 10% of the outstanding shares of CTS common stock are required to furnish CTS with copies of all Section 16(a) reports they file. Based solely on written representations from reporting persons and on our review of Section 16(a) reports provided by those individuals, CTS believes that all required Section 16(a) filings were completed in a timely manner for the year ended December 31, 2012.

COMMITTEES OF THE BOARD OF DIRECTORS

Directors are assigned to committees by the full Board each year following their election at the annual meeting.

Compensation Committee

The Compensation Committee is a standing committee of the Board. Directors Collawn, Catlow, Cody and Hunter are the current members of the Compensation Committee. Ms. Collawn is the Chairman of the Compensation Committee. Each member of the Compensation Committee is an independent director as defined by the NYSE Corporate Governance Listing Standards and the CTS Corporation Corporate Governance Guidelines. The Compensation Committee held five meetings in 2012. A copy of the Compensation Committee Charter may be obtained free of charge from CTS website at <http://www.ctscorp.com/governance/compensationcharter.htm>.

The Compensation Committee establishes executive compensation policies and reviews and approves senior executive and director compensation. The Compensation Committee reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance against those objectives, and makes recommendations to the Board regarding the Chief Executive Officer's compensation. The Compensation Committee also administers the CTS Corporation Management Incentive Plan and the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan, including the annual equity and non-equity performance plans. Annually, the Compensation Committee conducts an evaluation of its performance for the fiscal year.

The Compensation Committee does not delegate authority to perform any of the foregoing functions with respect to the compensation of any named executive officer. The Chief Executive Officer recommends to the Compensation Committee the form and level of compensation for each named executive officer other than himself. The Compensation Committee recommends the Chief Executive Officer's form and level of compensation to the Board for approval.

The Compensation Committee may, from time-to-time, direct senior functionaries of the corporation's human resources department to research specific issues and make recommendations to the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

Directors Collawn, Catlow, Cody and Hunter were appointed to the Compensation Committee following their election to the Board at CTS' 2012 Annual Meeting of Shareholders. During 2012, no executive officer of CTS served as a director of any other entity for which any CTS director was an executive officer.

Nominating and Governance Committee

The Nominating and Governance Committee is a standing committee of the Board. Directors Henning, Ciancia, Collawn and Murphy are the current members of the Nominating and Governance Committee. Mr. Henning is the Chairman of the Nominating and Governance Committee. Each member of the Nominating and Governance Committee is an independent director as defined by the New York Stock Exchange Corporate Governance Listing Standards and the CTS Corporation Corporate Governance Guidelines. The Nominating and Governance Committee held four meetings in 2012. A copy of the Nominating and Governance Committee Charter may be obtained free of charge from CTS' website at <http://www.ctscorp.com/governance/governancecharter.htm>.

The Nominating and Governance Committee reviews and makes recommendations to the Board concerning committee assignments, director-nominees for election at the Annual Meeting, and CTS officers for election. The Nominating and Governance Committee also develops the CTS Corporation Corporate Governance Guidelines for the approval of the Board and makes recommendations on matters of corporate governance. CTS' Bylaws describe the process for nominating a candidate for election to the Board at the Annual Meeting. CTS does not have a formal policy concerning whether the Nominating and Governance Committee will consider director-nominees submitted by shareholders. CTS did not receive any shareholder director-nominees for election at the 2013 Annual Meeting. At this time, the Board does not believe a formal policy regarding shareholder director-nominees is necessary since CTS' Bylaws provide a process for nomination of directors and no shareholder nominations for director have been received in past years.

The Nominating and Governance Committee reviews with the Board, on an annual basis, the requisite skills and director characteristics of any new members as well as the composition of the Board as a whole. This review includes an assessment of whether each non-management director qualifies as independent and an assessment of the diversity, age, skills, and experience of the directors in the context of the needs of the Board. Although the Nominating and Governance Committee has not established any specific minimum criteria or qualifications that a candidate must possess, the Nominating and Governance Committee seeks a diverse selection of candidates who possess the experience necessary to make a valuable contribution to the Board. The Board construes the notion of diversity broadly, considering differences in viewpoint, professional experience, education, skills, and other individual qualities, in addition to race, gender, and national origin. The Board does not have a formal diversity policy, but considers diversity as one criteria evaluated as a part of the total package of attributes and qualifications a particular candidate possesses. The Board believes that its efforts to foster a diverse board have been effective; while all directors are skilled in business, a variety of points of view, educational backgrounds, and experiences are represented on the Board. Additionally, key positions such as Chairman of the Board and Chairman of the Compensation Committee are currently held by ethnically and gender-diverse Board members. The Nominating and Governance Committee may retain search firms for the purpose of identifying and evaluating director candidates. The Nominating and Governance Committee also considers director-nominees identified by management and by non-management directors.

Audit Committee

The Audit Committee is a standing committee of the Board. Directors Ciancia, Catlow, Murphy and Henning are the current members of the Audit Committee. Mr. Ciancia is the Chairman of the Audit Committee. Each member of the Audit Committee is financially literate and meets the independence standards applicable to audit committee members under the NYSE Corporate Governance Listing Standards, as well as the CTS Corporation Corporate Governance Guidelines and the Audit Committee Charter. The Board has determined that Mr. Henning qualifies as an audit committee financial expert under the criteria set forth in Item 407(d)(5)(ii) of Regulation S-K. In addition to being a member of the CTS Audit Committee, Mr. Henning serves on the audit committees of three other public companies. The Board considered whether or not Mr. Henning's additional service would negatively impact his service to the Audit Committee. It is the opinion of the Board that Mr. Henning's breadth and depth of financial experience and knowledge greatly enhances the abilities and competencies of the Audit Committee and that, as a retiree, Mr. Henning has ample time and capacity to serve on three other public company audit committees without impairing his ability to serve the Audit Committee.

The Audit Committee held eight meetings in 2012. A copy of the Audit Committee Charter may be obtained free of charge from CTS' website at <http://www.ctscorp.com/governance/auditcharter.htm>.

The Audit Committee is responsible for appointing the independent auditor, approving engagement fees and all non-audit engagements, and reviewing the independence and quality of the independent auditor. The Audit Committee reviews audit plans, audit reports, and recommendations of the independent auditor and the internal audit department. The Audit Committee reviews systems of internal accounting controls and audit results. The Audit Committee also reviews and discusses with management CTS' financial statements, earnings releases and earnings guidance. In addition, the Audit Committee reviews CTS' compliance with public-company regulatory requirements and the CTS Code of Ethics.

Finance and Strategic Initiatives Committee

The Finance and Strategic Initiatives Committee is a standing committee of the Board. Directors Profusek, Cody, Hunter and Mr. Vinod M. Khilnani are the current members of the Finance and Strategic Initiatives Committee. Mr. Profusek is the Chairman of the Finance and Strategic Initiatives Committee. The Finance and Strategic Initiatives Committee held six meetings in 2012. A copy of the Finance and Strategic Initiatives Committee Charter may be obtained free of charge from CTS' website at <http://www.ctscorp.com/governance/financecharter.htm>.

The Finance and Strategic Initiatives Committee reviews and makes recommendations to the Board concerning corporate financing arrangements, tax strategies, dividend policy, financial structure, acquisition and divestiture strategies and similar matters. Additionally, the Finance and Strategic Initiatives Committee reviews and approves capital project appropriation requests for capital projects that are above certain prescribed limits.

FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS

Attendance

During 2012, the Board held seven meetings and took action by unanimous written consent two times. In 2012, all of the directors attended at least 75% of the meetings of the Board and the standing committees of which they were then members, either in person or by phone. It is the policy of the Board that each director endeavor to attend each Annual Meeting of Shareholders, unless exigent circumstances arise. Each director standing for re-election at the 2012 Annual Meeting of Shareholders attended that meeting.

Director Independence

The CTS Corporation Corporate Governance Guidelines provide that an independent director is one who:

Is not an employee of CTS and has not been an employee of CTS for at least five years;

Is not an affiliate of CTS other than in the capacity as a director, and has not been an affiliate of CTS for at least five years;

Is not an employee or affiliate of CTS present auditing firm or an auditing firm retained by CTS within the past five years and has not been an employee or affiliate of such a firm for at least five years;

Is not an employee of a company on whose board an executive of CTS presently serves as a director or has served as a director within the past five years and has not been an employee of such a company for at least five years;

Is not an employee of a company that accounts for at least 2% or \$1 million, whichever is greater, of CTS consolidated gross revenues, and has not been an employee of such a company for at least five years;

Is not an employee of any company which made payments to or received payments from CTS which exceeded 2% or \$1 million, whichever is greater, of that company's consolidated gross revenues, and has not been an employee of such a company for at least five years;

Is not an employee or director of any company that makes direct material investments or trades in CTS stock or that regularly advises investors concerning CTS stock;

Does not presently receive any direct or material indirect compensation from CTS other than compensation attributable to the director's service as a member of the Board and its committees;

Has not received more than \$10,000 per year in direct compensation from CTS during the past five years, excluding compensation attributable to the director's service as a member of the Board and its committees;

Does not have any other relationship with CTS or any other entity, including charitable and civic organizations that in the opinion of the Board could be considered to effect the director's ability to exercise his independent judgment as a director; and

Is not an immediate family member of any individual who would fail to meet the criteria for independence set forth above.

For purposes of determining whether a director has a material relationship with CTS apart from his service as a director, the Board has determined that CTS purchase of regulated electric and gas service from a utility company does not constitute a material relationship.

Additionally, for purposes of determining whether a director has a material relationship with CTS apart from his or her service as a director, any transaction that is not required to be disclosed pursuant to Item 404(a) of Regulation S-K shall be deemed categorically immaterial. A copy of the CTS Corporation Corporate Governance Guidelines may be obtained free of charge from CTS website at <http://www.ctscorp.com/governance/guidelines.htm>.

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The Board has determined that each non-management director is an independent director and has no material relationship with CTS, apart from his or her service as a director. The Board made this determination by reference to the definition of an independent director contained in the NYSE Corporate Governance Listing Standards and by reference to the standards set forth in the CTS Corporation Corporate Governance Guidelines, as described above. As a result, the Board concluded that Walter S. Catlow, Lawrence J. Ciancia, Thomas G. Cody, Patricia K. Collawn, Michael A. Henning, Gordon Hunter, Diana M. Murphy and Robert A. Profusek are each independent directors.

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CTS does not have a written policy specific to transactions with related persons. However, CTS does have written policies and procedures with respect to conflicts of interest. The CTS Corporation Corporate Governance Guidelines provide that the Nominating and Governance Committee shall review any situation that might be construed to disqualify a director as independent and to make a recommendation to the Board regarding the director's service on Board committees and nomination for re-election to the Board. The Nominating and Governance Committee Charter further provides that the Nominating and Governance Committee shall review any potential director conflict of interest and recommend appropriate action to the Board.

Meetings of Non-Management Directors

It is the policy of the Board to hold an independent session excluding management directors at each regular scheduled Board meeting. In 2012, an independent session was held at each regular Board meeting. The Lead Independent Director of the Board, Mr. Cody, presides over the independent sessions.

Board Leadership Structure

CTS does not have a policy as to whether the role of Chief Executive Officer and Chairman of the Board should be separate or combined, or whether the Chairman should be a management or non-management director. In the recent past, the Board has been structured with an independent or non-management director as Chairman and alternatively structured with a combined Chairman/Chief Executive or Executive Chairman and Chief Executive Officer. Currently, Mr. Khilnani serves as Executive Chairman of the Board and Mr. O'Sullivan as Chief Executive Officer. Mr. Khilnani and Mr. O'Sullivan are the only two of CTS' directors who are not independent. They do not receive any additional compensation for their service on the Board, nor does Mr. Khilnani receive additional compensation for serving as Chairman. The Chairman, in consultation with the Lead Director, sets the agenda and runs the regular meetings of the Board.

Mr. Cody presently serves as Lead Independent Director. The Lead Independent Director is the leader of the independent directors, and leads all meetings of independent directors, which normally occur after each Board meeting. A full description of his duties is as follows:

1. Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
2. Approve meeting agendas and schedules for the Board;
3. Review key strategic initiatives presented to the Board;
4. Serve as a liaison between the Chairman and the independent directors. To that end, ensure personal availability for consultation and communication with independent directors and with the Chief Executive Officer, as appropriate;
5. Call special meetings of the independent directors, as the Lead Independent Director may deem to be appropriate;
6. Be available, at the request of major shareholders, for consultation and direct communication. Respond directly to shareholder and other stakeholder questions and comments that are directed to the Lead Independent Director or to the independent directors as a group, consulting on such with the Chief Executive Officer or other directors as the Lead Independent Director may deem appropriate;
7. Act as a sounding board for the Chief Executive Officer and/or independent directors with respect to strategies, plans, organization, relationships, accountabilities, and other issues;
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Between regularly scheduled Board meetings discuss with the Chief Executive Officer key corporate risks and current issues and plans for presentations on such to the full Board or its committees;

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9. Lead the independent directors in appraising the Chief Executive Officer's performance at least annually; and

10. Lead the directors in appraising the Board's performance at least annually.

The General Counsel and Corporate Secretary's Office provide support to the Lead Independent Director in fulfilling his role. The Lead Independent Director received an annual retainer of \$20,000, in addition to his ordinary director compensation, for 2012 service. The Board has established this leadership structure because the Board believes it is effective, efficient, and appropriate to CTS' size and complexity. Additionally, this structure represents a cost-effective allocation of responsibilities.

Contrasting with the cost and efficiency benefits is the desire to ensure that control over both management and corporate governance is not overly invested in one person. The Board is confident that, as currently constituted, it provides ample counterbalance to an Executive Chairman and Chief Executive Officer and that it continues to provide suitable independent oversight of management. The independent directors on the Board are all accomplished professionals possessing substantial real world business and business-related experience. Additionally, most have served on the Board for a number of years. As discussed above, the independent directors meet in separate session excluding all management including the Executive Chairman and Chief Executive Officer at each regular meeting of the Board. Further, any director has the right to submit items to be heard at any Board meeting. Lastly, the independent directors outnumber the two non-independent directors, the Executive Chairman and the Chief Executive Officer, by a large supermajority.

Board of Directors Role in Risk Oversight

As a part of its oversight function, the Board monitors how management operates the corporation. Risk is an important part of deliberations at the Board and committee levels throughout the year. Committees consider risks associated with their particular areas of responsibility. For example, the Audit Committee evaluates risk associated with accounting, financial reporting, and legal compliance as it reviews those functions, and the Compensation Committee considers compensation-related risks and risk mitigation when it sets compensation levels and structures compensation policies. In addition, the Board as a whole considers risks affecting the corporation generally. To that end, the Board conducts periodic reviews of corporate risk management policies and procedures and annually reviews risk assessments prepared by management as a part of CTS' enterprise risk management process. The enterprise risk management process evaluates the CTS' major risk exposures and the steps management has taken to monitor and mitigate these exposures. Therefore, the Board and its committees consider, among other items, the relevant risks to CTS when granting authority to management and approving business strategies. The Board has utilized this risk management structure for a number of years. Although the Board retains the right to make changes in risk oversight responsibilities from time-to-time, the Board anticipates that the risk management responsibilities will continue in a substantially similar manner as described above, whether or not the Board's leadership structure changes.

Director Education

The CTS Corporation Corporate Governance Guidelines encourage all directors to participate in director continuing education programs. CTS reimburses directors for attendance at such programs. In addition, management monitors and reports to the directors regarding significant corporate governance initiatives. The directors also receive a presentation on new developments in corporate governance at least annually.

Stock Ownership Guidelines

The Board has adopted stock ownership guidelines that apply to non-employee directors and executives in order to increase the alignment of their interests with those of shareholders and promote

enduring shareholder value. Specifically, our Chief Executive Officer is required to hold a number of shares equal to five and one half times (5.5x) his base salary, our directors are required to hold a number of share units equal to five and one half times (5.5x) their annual base cash retainer, and officers other than the Chief Executive Officer are required to hold a number of share units equal to three times (3x) their base salaries. Until such time as an officer has attained the applicable share ownership guideline, he or she is expected to retain 100% of the share units awarded to him or her, net of amounts required to pay taxes and exercise prices. Thereafter, the officer is expected to retain, for a period of at least two (2) years, at least 50% of the total share units with which he or she is credited as a result of equity awards made by the CTS subsequent to the date on which the applicable share ownership guideline is attained, net of amounts required to pay taxes and exercise prices. Similar to the officers, until such time as a director has attained the applicable share ownership guideline, he or she is expected to retain 100% of the share units awarded to him or her. Thereafter, he or she is expected to retain, for a period of at least two (2) years, at least 50% of the total share units with which he or she is credited as a result of equity awards made by CTS subsequent to the date on which the applicable share ownership guideline level is attained; provided, however, that this requirement will terminate upon retirement. The guidelines require each director and officer to attain the applicable share unit ownership within six years of his or her initial election or appointment. The guidelines are administered by the Compensation Committee. A copy of the guidelines may be obtained free of charge from CTS website at <http://www.ctscorp.com/governance/stockog.htm>.

Director Resignation Policy

The Board of Directors has adopted a director resignation policy, which designates the circumstances when a director must offer his or her resignation to the Board. Specifically, directors are expected to offer to resign from the Board when they change employment or when the major responsibilities they held when they joined the Board change. Such director may not necessarily leave the Board, but this policy provides an opportunity for the Board to review the appropriateness of his or her continued service.