

CTS CORP
Form DEF 14A
April 23, 2009

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**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
Filed by a Party other than the Registrant

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.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

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SEC 1913 (02-02)

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April 24, 2009

Dear CTS Shareholder:

You are cordially invited to attend the 2009 Annual Meeting of Shareholders of CTS Corporation. The meeting will be held on Wednesday, May 27, 2009, at 9:00 a.m. Central Daylight Time, at the Hilton Chicago/Indian Lakes Resort & Conference Center, 250 West Shick Road, Bloomingdale, IL 60108.

The official meeting notice, proxy statement, and proxy form are enclosed. These materials were first mailed to shareholders on April 24, 2009. 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
President and Chief
Executive Officer

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Notice of the Annual Meeting of Shareholders

**To Be Held On
May 27, 2009**

To CTS Shareholders:

The 2009 Annual Meeting of Shareholders of CTS Corporation will be held on Wednesday, May 27, 2009 at 9:00 a.m. Central Daylight Time, at the Hilton Chicago/Indian Lakes Resort & Conference Center, 250 West Shick Road, Bloomingdale, IL 60108. To obtain directions to the meeting location, please call (574) 523-3800.

Only shareholders of record at the close of business on April 9, 2009 may vote at this meeting or any adjournments that may take place. At the meeting, shareholders will vote on:

1. Election of directors for the ensuing year;
2. Approval of the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan;
3. Ratification of the appointment of Grant Thornton LLP as CTS independent auditor for 2009; and
4. Any other business properly presented at the meeting.

Your Board of Directors recommends that you vote in favor of the director-nominees, approve the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan, and ratify the appointment of Grant Thornton LLP.

By Order of the Board of Directors,

Richard G. Cutter
Secretary

April 24, 2009

**Your vote is important.
Please date, sign and promptly mail the enclosed proxy card.
No postage is required if mailed in the United States.**

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

**To be held on
May 27, 2009**

This proxy statement was first mailed to shareholders on April 24, 2009, and is furnished in connection with the solicitation by CTS Corporation's Board of Directors of proxies to be voted at the Annual Meeting of Shareholders. The following is important information in a question-and-answer format regarding the meeting and this proxy statement.

Q: Upon what may I vote?

- A: (1) Election of director-nominees to serve on the Board of Directors;
- (2) Approval of the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan; and
- (3) Ratification of the appointment of Grant Thornton LLP as CTS' independent auditor for 2009.

Q: How does the Board of Directors recommend that I vote?

- A: The Board of Directors recommends that you vote:
- (1) FOR each of the director-nominees identified in this proxy;
- (2) FOR the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan; and
- (3) FOR ratification of Grant Thornton LLP as CTS' independent auditor for 2009.

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

- A: We are not aware of any other business to be brought before the shareholders at the 2009 Annual Meeting of Shareholders 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 Roger R. Hemminghaus, Chairman of the Board of Directors, and Richard G. Cutter, Vice President, Secretary and General Counsel, 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 CTS common shares are represented at the Annual Meeting, either in person or by proxy:
- (1) The eight director-nominees receiving the most votes will be elected. Only votes cast for a nominee will be counted. Your proxy will be voted for the eight director-nominees unless it contains contrary instructions. 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;

(2) The CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan will be approved if a majority of the shares present vote to approve the Plan. With respect to this proposal, abstentions will have the same effect as a vote against the proposal. Broker non-votes will not be voted for or against the proposal and will not be counted as entitled to vote; and,

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(3) The Audit Committee's appointment of Grant Thornton LLP as CTS' independent auditor for 2009 will be ratified if a majority of the shares present support the appointment. With respect to this proposal, abstentions will have the same effect as a vote against the proposal. Broker non-votes will not be voted for or against the proposal and will not be counted as entitled to vote.

Q: Who is entitled to vote?

A: Shareholders on the close of business on April 9, 2009, which is referred to as the Record Date, are entitled to vote at the Annual Meeting. As of close of business on the Record Date, there were 33,747,763 shares of CTS common stock issued and outstanding. Every shareholder of common stock is entitled to one vote for each share of common stock held on the Record Date.

Q: How do I vote?

A: Please sign and date each proxy card that you receive 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 the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan, and FOR ratification of Grant Thornton LLP as CTS' independent auditor for 2009. 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, notify CTS' Secretary by returning a later-dated proxy card. Of course, you may always vote in person at the meeting.

Q: How can I vote shares of 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 in your account according to your instructions. If Vanguard does not receive your instructions for how to vote your shares, they will not be voted. You must provide instructions or make changes to your instructions on how to vote shares in your CTS Corporation Retirement Savings Plan on or before May 21, 2009. On that date, your instructions will be transmitted to the plan trustee and cannot be changed.

Q: What does it mean if I get more than one proxy card?

A: It means that you hold CTS shares registered in more than one account. Please sign and return all proxy cards you receive to ensure that all your shares are voted.

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

A: In February 2009, CTS Corporation hired Georgeson & Co., Inc. to solicit votes for a fee of \$6,500. CTS also reimburses Georgeson 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 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:

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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

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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 CTS Board of Directors?

A: Director-nominees for the 2010 Annual Meeting of Shareholders may be nominated by shareholders by sending a written notice to the corporate office to the attention of Richard G. Cutter, Vice President, Secretary, and General Counsel for CTS Corporation. Pursuant to the CTS Corporation bylaws, all nominations must be received no earlier than January 15, 2010 and no later than March 1, 2010. 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 Secretary, or from CTS website at <http://www.ctscorp.com/governance/bylaws.htm>.

Q: When are shareholder proposals for the 2010 Annual Meeting due?

A: CTS advance notice bylaw provisions require that in order to be presented at the 2010 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 Richard G. Cutter, Vice President, Secretary, and General Counsel for CTS Corporation, and must be received no earlier than January 15, 2010 and no later than March 1, 2010. 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 Secretary, or from CTS website at <http://www.ctscorp.com/governance/bylaws.htm>.

PROPOSALS UPON WHICH YOU MAY VOTE

1. ELECTION OF DIRECTORS.
2. APPROVAL OF THE CTS CORPORATION 2009 OMNIBUS EQUITY AND PERFORMANCE INCENTIVE PLAN.
3. RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS CTS INDEPENDENT AUDITOR FOR 2009.

Your Board of Directors recommends a vote FOR the director-nominees, FOR the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan, 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 of Directors. The CTS Board of Directors has established the current number of authorized directors at eight. There are eight 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 Corporation. The ages shown are as of April 24, 2009, 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 of Directors will, in their sole discretion and pursuant to authority granted by the CTS Corporation bylaws, nominate and vote for a replacement director or reduce the authorized number of directors.

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WALTER S. CATLOW

Director since 1999

Age 64

Mr. Catlow is 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. Mr. Catlow previously served as Executive Vice President of Ameritech and as President of Ameritech International, Inc., where he directed Ameritech international investments and was responsible for global acquisitions and alliances.

LAWRENCE J. CIANCIA

Director since 1990

Age 66

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.

THOMAS G. CODY

Director since 1998

Age 67

Mr. Cody has served as Vice Chairman of Macys, Inc. (formerly known as Federated Department Stores, Inc.), a nationwide department store retailer, since February 2003. From 1992 to 2003, Mr. Cody was Executive Vice President, Legal and Human Resources of Federated Department Stores, Inc.

PATRICIA K. COLLAWN

Director since 2003

Age 50

Ms. Collawn is President and Chief Operating Officer of PNM Resources, a utilities corporation serving electricity and natural gas customers, since August 2008. Prior to this position, she served as Utilities President from June 2007. Prior to June 2007, Ms. Collawn was President and Chief Executive Officer of Public Service Company of Colorado, an Xcel Energy, Inc. subsidiary, from November 2005. Ms. Collawn served as President of Customer and Field Operations of Xcel Energy from July 2003.

ROGER R. HEMMINGHAUS

Director since 2000

Age 72

Mr. Hemminghaus is the Chairman of the CTS Corporation Board of Directors. He is the retired Chairman and Chief Executive Officer of Ultramar Diamond Shamrock Corporation, a corporation that refined and marketed petroleum products on a retail and wholesale basis, serving from 1996 until 2000. Mr. Hemminghaus is a past Chairman of the Federal Reserve Bank of Dallas. Mr. Hemminghaus also serves as a Director of Tandy Brand Accessories, Inc. and Xcel Energy, Inc.

MICHAEL A. HENNING

Director since 2000

Age 69

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 and as a member of the audit committee at each of Omnicom Group, Inc., Landstar Systems, Inc., and Highlands Acquisition Corporation.

VINOD M. KHILNANI

Director since 2007

Age 56

Mr. Khilnani joined CTS Corporation in May 2001 as Senior Vice President and Chief Financial Officer. In July 2007, he was elected President and appointed Chief Executive Officer. Mr. Khilnani received his Masters degree in economics from Delhi University in 1973 and his MBA in Finance from the University of New York in 1977. He holds CPA and CMA certifications. Mr. Khilnani has over 30 years of leadership experience in finance, strategy, mergers and acquisitions, and operating roles based in the USA and Europe, including

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18 years at Cummins, Inc. Mr. Khilnani also serves as a Director, member of the Nominating and Governance Committee, and member of the Compensation Committee for Brush Engineered Materials, Inc.

ROBERT A. PROFUSEK

Director since 1998

Age 59

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 a Director of Valero Energy Corporation and is a member of Valero's Compensation and Nominating and Governance Committees.

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

PROPOSAL 2: APPROVAL OF THE CTS CORPORATION 2009 OMNIBUS EQUITY AND PERFORMANCE INCENTIVE PLAN.

On February 4, 2009, the Board of Directors unanimously approved and adopted, subject to shareholder approval, the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan (the "2009 Plan"). The purpose of the 2009 Plan is to provide certain employees, consultants, and non-employee directors of the corporation ("Participants") with the opportunity to receive stock-based and performance incentives in order to attract, motivate, and retain qualified individuals and to align their interests with the interests of shareholders. You are being asked to approve the 2009 Plan.

CTS currently may grant equity awards under the terms of the CTS Corporation 2004 Omnibus Long-Term Incentive Plan (the "2004 Plan"), including stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, or other stock awards. If the 2009 Plan is approved by the shareholders, no grants will be made under the 2004 Plan in the future, except for grants awarded pursuant to the term of the 2008-2009 Performance Restricted Stock Unit Plan and the 2009-2010 Performance Restricted Stock Unit Plan (an on-target award of 226,000 restricted stock units with a maximum total of 452,000 restricted stock units possible). Approval of the 2009 Plan will in no way affect the validity of prior grants made under the 2004 Plan.

You are also being asked to approve certain material terms of the 2009 Plan in order to preserve CTS's ability to receive a federal income tax deduction for performance-based payments under the 2009 Plan. As discussed in the section entitled "Deductibility of Certain Executive Compensation," Section 162(m) of the Code disallows the corporate tax deduction for certain compensation in excess of \$1 million per year paid to certain executive officers. However, certain compensation, including compensation based on the attainment of performance goals, is excluded from this deduction limit if the compensation is granted under a plan whose material terms for performance-based awards for purposes of Section 162(m) are approved by shareholders. Under Section 162(m) of the Internal Revenue Code and applicable regulations, CTS must seek shareholder approval at five-year intervals to preserve CTS's ability to receive this federal income tax deduction. Shareholder approval of the 2009 Plan will have the effect of reducing the potential tax to be paid by CTS on certain compensation should it reach the limits set forth in Section 162(m) of the Code. If shareholders fail to approve the 2009 Plan, CTS generally will still be able to make awards of, among other things, stock options, stock appreciation rights, restricted stock and deferred stock under the 2004 Plan, but CTS may be limited in its ability to grant certain performance-based awards under the 2004 Plan for purposes of Section 162(m). The Board of Directors recommends that you vote to approve the 2009 Plan, including the material terms for performance-based awards for purposes of Section 162(m).

A summary of the 2009 Plan follows, which summary is qualified in its entirety by reference to the 2009 Plan itself, a copy of which is attached to this proxy statement as Exhibit A. A new plan benefits table is not provided because no grants have been made under the 2009 Plan and all grants will be discretionary.

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Administration:

The 2009 Plan shall be administered by the Compensation Committee of the Board of Directors (the Compensation Committee).

The Compensation Committee shall have authority to interpret the 2009 Plan and any award agreement under the 2009 Plan, prescribe rules and regulations, and make determinations necessary for the administration of the 2009 Plan.

The determinations of the Compensation Committee shall be conclusive and binding.

The Compensation Committee may delegate its authority to a subcommittee or, subject to certain conditions, to one or more officers of the corporation to make awards to employees who are not directors, executive officers, or more than 10% shareholders.

Available Shares:

The maximum number of shares that may be issued under the 2009 Plan is 3,400,000, subject to adjustment as described in the 2009 Plan.

The maximum number of shares that may be issued under the 2009 Plan that are the result of incentive stock options is 3,400,000.

The number of shares issued as restricted stock, restricted stock units, performance shares and performance units and other stock awards (after taking into account any forfeitures and cancellations) will not during the life of the 2009 Plan, in the aggregate, exceed 3,400,000 shares.

If any award is forfeited, expires, or is otherwise terminated, the associated unissued shares will again be available for future awards. Any shares that are tendered by a Participant or are reacquired by the corporation using the proceeds from the purchase price of an award will not be available for future grants under the 2009 Plan. Shares withheld by the corporation to satisfy the tax withholding obligation shall count against the maximum number of shares available for grant under the 2009 Plan. The number of shares covered by a stock appreciation right (SAR), to the extent that it is exercised and settled in shares, and whether or not all the shares covered by the award are actually issued to the Participant upon exercise of the SAR, shall be considered issued or transferred pursuant to the 2009 Plan. In the event that the corporation repurchases shares with option proceeds, those shares will not be added to the maximum number of shares available for grant under the 2009 Plan. If, under the 2009 Plan, a Participant has elected to give up the right to receive compensation in exchange for shares based on fair market value, such shares will not count against the maximum number of shares available for grant under the 2009 Plan. Unless otherwise determined by the Compensation Committee, awards that are designed to operate in tandem with other awards shall not be counted against the maximum number of shares available for grant under the 2009 Plan, in order to avoid double counting. To the extent any award is settled in cash, the number of shares available for issuance under the 2009 Plan shall be reduced by an amount equal to the quotient of: (i) the dollar amount of such cash payment, reduced by any amount tendered by the Participant or retained by CTS to satisfy tax withholding obligations in connection with the award; divided by (ii) the fair market value of a share on the date of the cash payment.

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Any shares issued under the 2009 Plan shall consist, in whole or in part, of authorized and unissued shares, shares purchased in the open market or otherwise, shares in treasury, or any combination thereof, as the Compensation Committee or, as appropriate, the Board of Directors may determine.

Eligibility:

Participants shall include those employees, consultants, and Board members designated by the Compensation Committee. The number of persons eligible to participate in the 2009 Plan is currently estimated to be approximately 225 people.

Awards:

The following types of awards may be granted under the 2009 Plan (which may be in lieu of other amounts owed to a Participant), subject to such terms as the Compensation Committee may prescribe in an award agreement:

Options: The right to purchase shares of CTS common stock, no par value, at a specified price. Options may take the form of incentive stock options or nonqualified stock options, but incentive stock options may only be granted to employees under Section 3401(c) of the Internal Revenue Code. On April 9, 2009, the closing price of CTS common stock on the New York Stock Exchange was \$4.62.

SARs: The right to receive the difference between the fair market value of a share on the date of exercise and the exercise price, payable in cash or shares. SARs may not have a term of more than 10 years.

Restricted Stock: An award of shares subject to certain restrictions and/or the risk of forfeiture.

Restricted Stock Units: An award of units representing the right to receive one share or an amount equal to the fair market value of one share, payable in cash or shares, subject to certain restrictions and/or the risk of forfeiture.

Performance Shares: An award, denominated in shares, which is earned during a specified performance period subject to the attainment of performance criteria.

Performance Units: An award, denominated in currency-valued units, which is earned during a specified performance period subject to the attainment of performance criteria.

Other Stock Awards: An award of shares or an award that is based in whole or in part on the value of a share (such as dividend equivalents), payable in shares, cash, other securities, or other property.

**Section 162(m)
Qualification:**

The Compensation Committee may designate certain awards, referred to as Qualified Performance-Based Awards, to be compliant with the requirements for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code.

The following individual annual grant limitations apply per calendar year, subject to adjustment as described in the 2009 Plan:

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Options/SARs: 500,000 shares.

Qualified Performance-Based Awards of Performance Shares: 125,000 shares.

Qualified Performance-Based Awards of Performance Units: \$2,000,000.

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**Performance
Criteria:**

Performance criteria applicable to any Qualified Performance-Based Award to a covered employee, referred to as Performance Measures, must be based on specified levels of or growth in one or more of the following: free cash flow; free cash flow from operations; total earnings; earnings per share, diluted or basic; earnings per share from continuing operations, diluted or basic; earnings before interest and taxes; earnings before interest, taxes, depreciation, and amortization; earnings from continuing operations; net asset turnover; inventory turnover; debt ratios; operating expense; inventory turns; net earnings; operating earnings; gross operating margin, gross margin percentage; return on equity; capital expenditures; cost of quality; on-time delivery; return on net assets; return on total assets; return on capital; return on investment; return on sales; gross sales, net sales; market share; net market share; economic value added; expense reduction levels; stock price; working capital; controllable working capital and total shareholder return.

Performance Measures may be considered either alone or in any combination, and may be expressed with respect to CTS or one or more operating units or groups, as the Compensation Committee may determine. Performance Measures may be determined on an absolute basis or relative to internal goals or relative to levels attained in prior years or related to other companies or indices or as ratios expressing relationships between two or more Performance Measures.

Performance Measures may be defined to exclude certain types or categories of extraordinary, unusual or non-recurring items; changes in applicable laws, regulations, or accounting principles; currency fluctuations; discontinued operations; non-cash items, such as amortization, depreciation, or reserves; or any recapitalization, restructuring, asset impairment, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-up, combination, liquidation, dissolution, sale of assets, gain or loss on asset sales, or other similar corporate transactions; provided, however, that such action shall not be taken in the case of a Qualified Performance-Based Award where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code.

The Compensation Committee shall provide how any Performance Measure shall be adjusted to the extent necessary to prevent dilution or enlargement of any award as a result of extraordinary events or circumstances, as determined by the Compensation Committee, or to exclude the effects of extraordinary, unusual, or non-recurring items; changes in applicable laws, regulations, or accounting principles; currency fluctuations; discontinued operations; non-cash items, such as amortization, depreciation, or reserves; or any recapitalization, restructuring, asset impairment, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-up, combination, liquidation, dissolution, sale of assets, gain or loss on asset sales, or other similar corporate transactions; provided, however, that such action shall not be taken in the case of a Qualified Performance-Based Award where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.

The exercise price of an option or SAR may not be below the fair market value of a share on the date of grant, unless granted as a substitute award in compliance with

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Section 424(a) of the Internal Revenue Code.

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Certain adjustments must be made to the maximum share amounts and other limitations in the event of certain changes in the number of outstanding shares or certain corporate transactions or other similar events, including stock splits and stock dividends. In the event of such transaction or event, the Compensation Committee may provide alternative consideration as a substitute for awards under the 2009 Plan and may require surrender and replacement of awards in compliance with Section 409A of the Internal Revenue Code. For each option or SAR with an exercise price greater than the consideration offered in connection with any such transaction or event, the Compensation Committee may in its sole discretion elect to cancel such option or SAR without any payment to the person holding such option or SAR.

Other Provisions:

The repricing of options or SARs without shareholder approval is prohibited.

The exercise price of an option or SAR may not be below the fair market value of a share on the date of grant, unless granted as a substitute award in compliance with Section 424(a) of the Internal Revenue Code.

Certain adjustments must be made to the maximum share amounts and other limitations in the event of certain changes in the number of outstanding shares or certain corporate transactions or other similar events, including stock splits and stock dividends. In the event of such transaction or event, the Compensation Committee may provide alternative consideration as a substitute for awards under the 2009 Plan and may require surrender and replacement of awards in compliance with Section 409A of the Internal Revenue Code. For each option or SAR with an exercise price greater than the consideration offered in connection with any such transaction or event, the Compensation Committee may in its sole discretion elect to cancel such option or SAR without any payment to the person holding such option or SAR.

The 2009 Plan shall not be construed to give a Participant the right to continue as an employee, consultant, or director of CTS and a Participant will not have any rights as a shareholder unless and until shares are actually issued.

Any rights under the 2009 Plan are not assignable by a Participant except by will or by the applicable laws of descent and distribution, unless otherwise determined by the Compensation Committee. In no event will any award granted under the 2009 Plan be transferred for value.

Subject to the approval of the Board where required, the Compensation Committee may amend or terminate the 2009 Plan in whole or in part; provided that no amendment or termination may be made without shareholder approval that would increase the maximum number of shares that may be issued under the 2009 Plan (except for adjustments permitted under the 2009 Plan), change the class of eligible Participants, permit the repricing of outstanding options or SARs or otherwise require shareholder approval. No amendment or termination may terminate or adversely affect any right of a Participant under an award without that Participant's consent, except as necessary to comply with changes in law or accounting rules applicable to CTS.

The Compensation Committee may adopt, amend, or terminate arrangements to make tax or other benefits available to Participants subject to laws of a foreign jurisdiction or to conform with such laws.

The 2009 Plan shall be governed by the laws of the State of Indiana, without regard to its conflict of laws principles.

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CTS reserves the right to make certain amendments to the 2009 Plan related to compliance with Section 409A of the Internal Revenue Code.

The 2009 Plan contains an award clawback feature. If the Board of Directors learns of any intentional misconduct by a Participant which directly contributes to the corporation having to restate all or a portion of its financial statements, the Board may require the Participant to reimburse the corporation for the difference between any awards paid out to the Participant and the amount the Participant would have earned as awards based on the corrected financial results.

Effective Date and Termination:

The 2009 Plan will become effective as of May 27, 2009, subject to shareholder approval.

Unless earlier terminated, the 2009 Plan will expire on May 26, 2019.

Federal Income Tax Consequences

The following is a brief summary of some of the federal income tax consequences of certain transactions under the 2009 Plan based on federal income tax laws in effect on January 1, 2009. This summary is not intended to be complete and does not describe state or local tax consequences. It is not intended as tax guidance to Participants in the 2009 Plan.

Tax Consequences to Participants

Nonqualified Stock Options. In general, (1) no income will be recognized by an optionee at the time a nonqualified stock option is granted; (2) at the time of exercise of a nonqualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the exercise price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise; and (3) at the time of sale of shares acquired pursuant to the exercise of a nonqualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

Incentive Stock Options. No income generally will be recognized by an optionee upon the grant or exercise of an incentive stock option, or ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares, any amount realized in excess of the exercise price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the exercise price paid for such shares. Any further gain (or loss) realized by the Participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

SARs. No income will be recognized by a Participant in connection with the grant of a SAR. When the SAR is exercised, the Participant normally will be required to include as taxable ordinary income in the year of exercise an

amount equal to the amount of cash received and the fair market value of any unrestricted shares received on the exercise.

Restricted Stock. The recipient of restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the restricted stock (reduced by any amount paid by the Participant for such

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restricted stock) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code (Restrictions). However, a recipient who so elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of transfer of the shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the Restrictions) over the purchase price, if any, of such restricted stock. If a Section 83(b) election has not been made, any dividends received with respect to restricted stock that is subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the Participant.

Restricted Stock Units. No income generally will be recognized upon the award of restricted stock units. The recipient of an award of restricted stock units generally will be subject to tax at ordinary income rates on the fair market value of unrestricted shares on the date that such shares are transferred to the Participant under the award (reduced by any amount paid by the Participant for such restricted stock units), and the capital gains/loss holding period for such shares will also commence on such date.

Performance Shares and Performance Units. No income generally will be recognized upon the grant of performance shares or performance units. Upon payment in respect of the earn-out of performance shares or performance units, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares received.

Other Stock Awards. No income generally will be recognized upon the grant of other stock awards. Upon payment of other awards, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares received.

Tax Consequences to CTS

To the extent that a Participant recognizes ordinary income in the circumstances described above, CTS will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Internal Revenue Code.

Your Board of Directors recommends a vote FOR approval of the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan.

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

Grant Thornton LLP has served as CTS independent registered public auditor since June 2005 and has been appointed by the Audit Committee to continue as CTS independent auditor for 2009. In the event that ratification is not approved by a majority of the shares of CTS common stock represented at the Annual Meeting in person or by proxy and entitled to vote on the matter, the Audit Committee and the Board of Directors 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 such time to make such statements as they desire.

Your Board of Directors recommends a vote FOR ratification of the appointment of Grant Thornton LLP as CTS independent auditor for 2009.

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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, 2008:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(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	1,294,263	\$ 14.53	5,075,709
Equity compensation plans not approved by security holders(1)	56,261		
Total	1,350,524		5,075,709

(1) In 1990, CTS adopted the Stock Retirement Plan for Non-Employee Directors. As of December 1, 2004, this plan was amended to preclude crediting any additional units under the plan. Prior to the amendment, CTS annually credited an account for each non-employee director with 800 common stock units. CTS also annually credited each deferred stock account with an additional number of 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. Upon retirement, the non-employee director is entitled to receive one share of CTS common stock for each common stock unit in his deferred stock account. CTS has issued only treasury shares for common stock units under the plan. On December 31, 2008, the deferred stock accounts contained a total of 56,261 units.

**SECTION 16(a) BENEFICIAL
OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires CTS directors, executive officers and certain persons who own more than 10% of CTS common stock to file with the Securities and Exchange Commission and the New York Stock Exchange, initial reports of ownership and reports of changes in ownership of CTS common stock. Executive officers, directors and holders of at least 10% 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 in 2008, with the exception of one report on one transaction for Vinod M. Khilnani, which was filed one day late due to an administrative oversight.

COMMITTEES OF THE BOARD OF DIRECTORS

Directors are assigned to committees of the Board of Directors by the full Board of Directors each year following their election at the Annual Meeting.

Compensation Committee

The Compensation Committee is a standing committee of the Board of Directors. Directors Cody, Catlow, Collawn, and Henning are the current members of the Compensation Committee. Each member of the Compensation 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 Committee held four meetings in 2008. A copy of the Compensation Committee Charter may be obtained free of charge from CTS Secretary upon request or from CTS website at <http://www.ctscorp.com/governance/compensationcharter.htm>.

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The Compensation Committee establishes executive compensation policies and reviews and approves senior executive and director compensation and employment agreements. 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 of Directors regarding the Chief Executive Officer's compensation. The Compensation Committee also administers the CTS Corporation Management Incentive Plan and the CTS Corporation 2004 Omnibus Long-Term Incentive Plan. If the CTS Corporation 2009 Omnibus Equity and Performance Incentive Plan is approved, the Compensation Committee will also administer the 2009 Plan. 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 executive officer. The Compensation Committee may delegate authority to make cash incentive or equity awards to non-executive officers to the Chief Executive Officer and/or the Senior Vice President Administration subject to specific numeric limits. The Chief Executive Officer recommends to the Compensation Committee the form and level of compensation for each executive officer other than himself. The Compensation Committee recommends the Chief Executive Officer's form and level of compensation to the full Board of Directors for approval.

The Senior Vice President Administration regularly reports to the Compensation Committee regarding market trends in executive compensation. He also provides background information, such as peer benchmark data, to assist the Compensation Committee in making decisions about executive compensation. The Compensation Committee may direct the Senior Vice President Administration to research specific issues and make recommendations to the Committee.

Compensation Committee Interlocks and Insider Participation

Directors Cody, Catlow, Collawn, and Henning were appointed to the Compensation Committee following their election to the Board of Directors at the 2008 Annual Meeting of Shareholders of CTS Corporation. During 2008, 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 of Directors. Directors Ciancia, Cody, Collawn, and Frieling are the current members 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 2008. A copy of the Nominating and Governance Committee Charter may be obtained free of charge from CTS' Secretary upon request or from CTS' website at <http://www.ctscorp.com/governance/governancecharter.htm>.

The Nominating and Governance Committee reviews and makes recommendations to the Board of Directors concerning committee assignments and director-nominees for election at the Annual Meeting. The Nominating and Governance Committee also develops the CTS Corporation Corporate Governance Guidelines for the approval of the Board of Directors and makes recommendations on matters of corporate governance. CTS' bylaws describe the process for nominating a candidate for election to the Board of Directors at the Annual Meeting of Shareholders. 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 2009 Annual Meeting of Shareholders. At this time, the Board of Directors 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 of Directors, on an annual basis, the requisite skills and director characteristics of any new members as well as the composition of the Board of

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Directors 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 of Directors. 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 candidates who possess the experience necessary to make a valuable contribution to the Board of Directors. 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 of Directors. Directors Catlow, Ciancia, Frieling, and Henning are the current members 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 New York Stock Exchange Corporate Governance Listing Standards, as well as the CTS Corporation Corporate Governance Guidelines and the Audit Committee Charter. The Board of Directors 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 of Directors met and discussed whether or not Mr. Henning's additional service would negatively impact his service to the CTS Audit Committee. It is the opinion of the Board