HOLLY ENERGY PARTNERS LP
Form 10-Q
November 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to _____________
Commission File Number: 1-32225

HOLLY ENERGY PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-0833098 (I.R.S. Employer Identification No.)
2828 N. Harwood, Suite 1300 Dallas, Texas	75201
(Address of principal executive offices)	(Zip code)

(214) 871-3555
(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨

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

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

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

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

The number of the registrant’s outstanding common units at October 24, 2014 was 58,657,048.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under "Results of Operations" and "Liquidity and Capital Resources" in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I are forward-looking statements. Forward-looking statements use words such as "anticipate," "project," "expect," "plan," "goal," "forecast," "intend," "should," "could," "believe," "may," and similar expressions and statements regarding our plans and objectives for future operations. These statements are based on our beliefs and assumptions and those of our general partner using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurance that our expectations will prove to be correct. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled, stored or throughput in our terminals;
- the economic viability of HollyFrontier Corporation, Alon USA, Inc. and our other customers;
- the demand for refined petroleum products in markets we serve;
- our ability to purchase and integrate future acquired operations;
- our ability to complete previously announced or contemplated acquisitions;
- the availability and cost of additional debt and equity financing;
- the possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;
- the effects of current and future government regulations and policies;
- our operational efficiency in carrying out routine operations and capital construction projects;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2013, in "Risk Factors" and in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$1,667	$6,352
Accounts receivable:		
Trade	5,761	5,061
Affiliates	30,211	29,675
	35,972	34,736
Prepaid and other current assets	4,419	3,874
Total current assets	42,058	44,962
Properties and equipment, net	971,560	957,814
Transportation agreements, net	82,440	87,650
Goodwill	256,498	256,498
Investment in SLC Pipeline	24,579	24,741
Other assets	9,034	10,843
Total assets	$1,386,169	$1,382,508
LIABILITIES AND PARTNERS’ EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$10,792	$14,414
Affiliates	4,293	8,484
	15,085	22,898
Accrued interest	1,823	10,239
Deferred revenue	14,271	13,981
Accrued property taxes	6,469	2,603
Other current liabilities	2,862	1,845
Total current liabilities	40,510	51,566
Long-term debt	851,416	807,630
Other long-term liabilities	13,374	14,585
Deferred revenue	26,432	21,669
Class B unit	25,082	20,124
Equity:		
Partners’ equity:		
Common unitholders (58,657,048 units issued and outstanding	481,147	516,147

at September 30, 2014 and December 31, 2013)		
General partner interest (2% interest)	(147,948)	(146,557)
Accumulated other comprehensive income (loss)	314	(144)
Total partners’ equity	333,513	369,446
Noncontrolling interest	95,842	97,488
Total equity	429,355	466,934
Total liabilities and equity	$1,386,169	$1,382,508

See accompanying notes.

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HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Affiliates	$67,450	$65,523	$203,762	$190,222
Third parties	14,680	12,200	40,370	37,084
	82,130	77,723	244,132	227,306
Operating costs and expenses:				
Operations (exclusive of depreciation and amortization)	25,456	21,686	72,835	72,089
Depreciation and amortization	15,483	19,449	46,953	48,730
General and administrative	2,266	2,415	7,933	8,747
	43,205	43,550	127,721	129,566
Operating income	38,925	34,173	116,411	97,740
Other income (expense):				
Equity in earnings of SLC Pipeline	880	835	2,150	2,238
Interest expense	(8,585)	(11,816)	(27,368)	(35,929)
Interest income	—	3	3	110
Loss on early extinguishment of debt	—	—	(7,677)	—
Gain (loss) on sale of assets	—	(159)	—	1,863
Other income	11	61	45	61
	(7,694)	(11,076)	(32,847)	(31,657)
Income before income taxes	31,231	23,097	83,564	66,083
State income tax expense	(42)	(40)	(145)	(440)
Net income	31,189	23,057	83,419	65,643
Allocation of net income attributable to noncontrolling interests	(1,509)	(1,172)	(6,562)	(5,192)
Net income attributable to Holly Energy Partners	29,680	21,885	76,857	60,451
General partner interest in net income, including incentive distributions	(8,940)	(7,128)	(25,334)	(20,038)
Limited partners' interest in net income	$20,740	$14,757	$51,523	$40,413
Limited partners' per unit interest in earnings—basic and diluted	$0.35	$0.25	$0.87	$0.69
Weighted average limited partners' units outstanding	58,657	58,657	58,657	58,108

See accompanying notes.

HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$31,189	$23,057	$83,419	$65,643
Other comprehensive income:				
Change in fair value of cash flow hedging instruments	553	(1,626)	(1,189)	1,329
Amortization of unrealized loss attributable to discontinued cash flow hedge	—	—	—	849
Reclassification adjustment to net income on partial settlement of cash flow hedge	556	529	1,647	1,549
Other comprehensive income (loss)	1,109	(1,097)	458	3,727
Comprehensive income before noncontrolling interest	32,298	21,960	83,877	69,370
Allocation of comprehensive income to noncontrolling interests	(1,509)	(1,172)	(6,562)	(5,192)

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the CTS Corporation Board of Directors has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in CTS Annual Report on Form 10-K and this proxy statement.

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CTS CORPORATION 2007 COMPENSATION COMMITTEE

Thomas G. Cody, Chairman	Robert A. Profusek
Roger R. Hemminghaus	Patricia K. Collawn

EXECUTIVE COMPENSATION

2007 Summary Compensation Table

nd Principal osition (a)	Year (b)	Salary ($) (c)	Bonus(1) ($) (d)	Stock Award(s) ($)(2) (e)	Option Awards ($)(3) (f)	Non-Equity Incentive Plan Compensation ($)(4) (g)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5)($) (h)	All Other Compensation ($)(6) (I)	T
. Schwanz, hairman, and Chief	2007	791,945	45,144	398,494	97,642	659,294	365,707	51,701	2,
	2006	766,022	62,346	484,770	404,454	735,381	893,438	48,782	3,
. Khilnani, and Chief e Officer	2007	432,000	41,920	339,237	88,696	309,135	147,155	29,635	1,
	2006	357,808	54,550	280,254	106,600	228,997	120,393	23,842	1,
. Schroeder, e Vice and of CTS cs uring	2007	327,610	28,653	190,025	34,930	203,610	358,399	105,607	1,
	2006	316,715	31,830	169,994	127,048	60,809	375,497	117,448	1,
Cummins, ce President ration	2007	258,942	23,629	149,227	33,722	129,342	156,594	33,473	[illegible]
	2006	243,654	26,244	135,738	52,752	140,345	206,864	33,247	[illegible]

Buchanan,								
ce President	2007	260,694	27,596	145,724	47,505	88,766	293,052	31,360
	2006	252,021	38,998	170,970	52,400	97,532	278,990	31,526
Long,								
hief								
Officer,								
	2007	166,346	8,052	74,158	13,866	46,161	5,371	23,806
	2006	156,385	7,870	68,479	18,670	50,043	28,246	16,500

(1) Amounts represent cash payments in connection with lapse of transfer restrictions on restricted shares issued under the 1988 Restricted Stock and Cash Bonus Plan.

(2) Assumptions made in the valuation of restricted stock units are set forth in Note I to CTS Consolidated Financial Statements as reported in CTS Annual Report on Form 10-K for the year ended December 31, 2007.

(3) Assumptions made in the valuation of stock options are set forth in Note I to CTS Consolidated Financial Statements as reported in CTS Annual Report on Form 10-K for the year ended December 31, 2007.

(4) Amounts earned under the 2007 Management Incentive Plan.

(5) Other than for Mr. Schwanz and Mr. Long, the change in pension value is based on the difference between the estimated present value of each accrued benefit for named executive officers as of December 31, 2007 under the CTS Corporation Pension Plan and his Individual Excess Benefit Retirement Plan and the estimated present value of each named executive officer s accrued benefit as of December 31, 2006 under the CTS Corporation Pension Plan and the CTS Corporation 2003 Excess Benefit Retirement Plan. Calculations are made based on the assumptions described under the caption 2007 Pension Benefits below. These amounts do not include any above-market or preferential earnings on non-qualified deferred compensation. Mr. Schwanz s change in pension value is based on

the difference between the actual present value of his accrued benefit as of December 31, 2007 under the CTS Corporation Pension Plan and his Individual Excess Benefit Retirement Plan and the estimated present value of his accrued benefit as of December 31, 2006 under the CTS Corporation Pension Plan and his individual Excess Benefit Retirement Plan. Mr. Long s change in pension value is based on the difference between the estimated present value of his accrued benefit as of December 31, 2007 under the CTS Corporation Pension Plan and his Individual Excess Benefit Retirement Plan and the estimated present value of his accrued benefit as of December 31, 2006 under the CTS Corporation Pension Plan and the CTS Corporation 1996 Excess Retirement Plan.

(6) Amounts in this column for 2007 reflect the following perquisites and personal benefits:

(i) for Mr. Schwanz, a cash perquisite allowance, investment advisory services, executive physical services, tax preparation services.

(ii) for Mr. Khilnani, a cash perquisite allowance, tax preparation services and executive physical services.

(iii) for Mr. Schroeder, an $80,400 temporary living allowance, a cash perquisite allowance, financial planning services, tax preparation services and an executive physical.

(iv) for Mr. Cummins, a cash perquisite allowance, financial planning services and tax preparation services.

(v) for Mr. Buchanan, a cash perquisite allowance, tax preparation services and investment advisory services.

(vi) for Mr. Long, a cash perquisite allowance and investment advisory services.

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2007 Grants of Plan-Based Awards

Name (a)	Grant Date (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Under-lying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards
Donald K. Schwanz								
2007 Management Incentive Plan		0	593,959	1,187,918				
Vinod M. Khilnani								
2007 Management Incentive Plan		0	324,000	648,000				
2004 Omnibus Long-Term Incentive Plan	07/02/2007				25,000			327,750
2004 Omnibus Long-Term Incentive Plan/ Performance Share Agreement	07/02/2007				25,000			327,750
2007 Performance Stock Unit Plan(1)	02/05/2008				3,600			37,764
Matthew W. Long								
2007 Management		0	41,587	83,173				

Incentive Plan						
2004 Omnibus Long-Term Incentive Plan	06/06/2007				5,000	59,550
2004 Omnibus Long-Term Incentive Plan	09/12/2007				4,000	50,200
2007 Performance Stock Unit Plan(1)	02/05/2008				900	9,441
Donald R. Schroeder						
2007 Management Incentive Plan		0	163,805	327,610		
2004 Omnibus Long-Term Incentive Plan	06/06/2007				14,000	166,740
2007 Performance Stock Unit Plan(1)	02/05/2008				3,000	31,470
H. Tyler Buchanan						
2007 Management Incentive Plan		0	130,347	260,694		
2004 Omnibus Long-Term Incentive Plan	06/06/2007				10,000	119,100
2007 Performance Stock Unit Plan(1)	02/05/2008				2,400	25,176
James L. Cummins						
2007 Management Incentive Plan		0	116,524	233,048		
2004 Omnibus Long-Term Incentive Plan	06/06/2007				11,500	136,965
2007 Performance Stock Unit Plan(1)	02/05/2008				2,100	22,029

(1) Represents the 2007 Performance Stock Unit Plan issued under the CTS Corporation 2004 Omnibus Plan. The awards are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. Restricted stock units for achievement of the performance goals were issued in February 2008 following certification of 2007 fiscal year results by CTS s independent auditor.

Employment Agreement with Donald K. Schwanz. On December 6, 2006, CTS entered into an employment agreement with Donald K. Schwanz who was, at that time, Chairman, President and Chief Executive Officer of the corporation. Mr. Schwanz prior agreement expired October 1, 2006. The agreement anticipated Mr. Schwanz s continued employment with CTS until December 31, 2007. During the term of the agreement, Mr. Schwanz would continue to receive his annual base salary of $779,300, subject to review and increase by the Board of Directors and he was eligible for a target annual bonus of 75% of annual base salary. The employment agreement provides that upon the expiration of the agreement on December 31, 2007, Mr. Schwanz would be retained by the corporation as a consultant for eighteen months entitling Mr. Schwanz to consulting fees at an annual rate of $175,000.

Mr. Schwanz tendered his resignation as President, Chief Executive Officer and Chairman of the Board of Directors effective July 2, 2007. At the time of his resignation, Mr. Schwanz was appointed Chairman Emeritus of the Board of Directors. Although it had been anticipated that Mr. Schwanz would continue to serve in this position through December 31, 2007, the transition to a successor Chief Executive Officer was accomplished more rapidly than expected. Therefore, on October 2, 2007, Mr. Schwanz resigned as Chairman Emeritus of the Board of Directors and retired from service with CTS and commenced his eighteen month consulting period under his employment agreement. A component of that agreement is Mr. Schwanz participation in the Individual Excess Benefit Retirement Plan which replaced the benefit Mr. Schwanz had accrued under the 2003 SERP. Consistent with his benefit under the 2003 SERP, the Individual Excess Benefit Retirement Plan provided that upon retirement, Mr. Schwanz will receive a supplemental retirement benefit equal to the difference between the benefit that he receives under the Pension Plan and the benefit he would receive under the Pension Plan if restrictions imposed on the calculation of benefits under the tax-qualified plans were disregarded, early retirement reduction factors were eliminated, 50% of the fair market value of restricted stock units which vest during the three highest pay calendar years were included in the pay calculation and credited service earned after June 30, 2002 was multiplied by two. Under the 2003 SERP, benefits were payable at the time and in the manner elected by the participant under the Pension Plan. This payment provision, however, did not comply with Section 409A of the Internal Revenue Code. Therefore, the Individual Excess Benefit Retirement Plan provides that Mr. Schwanz will receive the actuarial present value of the supplemental retirement benefit calculated as described above. The actuarial present value of the benefit is payable as a single lump sum cash payment from the general assets of CTS in the seventh month following Mr. Schwanz separation from service. The actuarial present value is determined using the actuarial assumptions employed under the Pension Plan for determining lump sum cash payouts in the Plan Year during which Mr. Schwanz separation from service occurs. Mr. Schwanz will receive interest on the lump sum amount for the period between his separation from service and its payment at an interest rate equal to the lump sum interest rate assumption used to calculate the lump sum amount.

Employment Agreement with Vinod M. Khilnani. On June 14, 2007, CTS entered into an employment agreement with Mr. Khilnani to become effective on July 2, 2007. The agreement provides that if CTS terminates Mr. Khilnani s employment under certain circumstances or Mr. Khilnani terminates his employment for good reason, as defined in the agreement, CTS will provide Mr. Khilnani with compensation, equal to his current base salary and his target incentive compensation for the calendar year prior to termination, for a period of two years following the termination date. However, to bring these payments into compliance with section 409A of the Internal Revenue Code, on December 3, 2007, CTS amended Mr. Khilnani s agreement to reflect that Severance Benefits will be paid in a single lump sum cash payment as soon as practicable but not more than 90 days after the date of Mr. Khilnani s separation from service within the meaning of Section 409A; provided, however, that if Mr. Khilnani is a specified employee as defined in Section 409A, such payment shall be paid on the earlier of (a) the first day of the seventh month following the date of his separation from service or (b) his death. The Board of Directors approved an annual base salary of $500,000 for Mr. Khilnani. The Board of Directors approved a total target bonus of 75% of annual base salary for Mr. Khilnani. The Board of Directors increased Mr. Khilnani s quarterly perquisite allowance to $4,300 in connection with his election as President and Chief Executive Officer. Mr. Khilnani will not receive any compensation for his service as a director of the corporation. The Board of Directors has granted to Mr. Khilnani 25,000 service-based restricted stock units under the terms of the CTS 2004 Omnibus Long-Term Incentive Plan in connection with his election as President and Chief Executive Officer. These service-based restricted stock units will vest in equal annual installments of 5,000. In addition, Mr. Khilnani and the corporation have entered into a performance-based compensation arrangement. The performance criteria and other terms of the performance-based restricted stock unit grant have been determined by the Compensation Committee.

Compensation Arrangements. CTS does not have employment agreements with any executive officers, other than Mr. Khilnani. Annual base salary for each named executive officer, other than Mr. Khilnani, is determined by the Compensation Committee of the Board of Directors. Mr. Khilnani s annual base salary is determined by the Board of Directors based on a recommendation by the Compensation Committee. The annual salaries for named executive officers set in 2007 were as follows: Donald K. Schwanz $779,300; Vinod M. Khilnani $500,000; Donald R. Schroeder $331,900; James L. Cummins $267,700; H. Tyler Buchanan $264,100; and Matthew W. Long $178,700. Other compensation arrangements in which named executive officers participate are discussed below.

Bonuses. Amounts shown in the Bonus column in the Summary Compensation Table reflect cash payments under the CTS Corporation 1988 Restricted Stock and Cash Bonus Plan. Under that plan, recipients receive a cash award equal to the fair market value of each restricted share of CTS stock on the date the restrictions lapse. The plan provided for awards to vest over a five-year period. No awards have been

made under that plan since 2003 and the Compensation Committee has expressed its intent to make no future awards under this Plan. Dividends are paid on restricted shares at the same rate applicable to non-restricted shares of CTS common stock.

Non-Equity Incentive Plan Compensation. In 2007, each named executive officer, along with other officers and key employees, participated in the 2007 Management Incentive Plan. The Compensation Committee adopted this annual cash incentive Plan under the terms of the CTS Corporation Management Incentive Plan approved by the shareholders in 2007. Corporation-wide and strategic business unit quantitative financial performance goals were established for the 2007 fiscal year under the Plan. Each participant was also assigned objective qualitative performance goals for the 2007 fiscal year which contributed to CTS financial performance. A target award was established for each participant based on a percentage of his or her base salary. The Compensation Committee established the performance goals and target awards for each named executive officer, other than Mr. Schwanz and Mr. Khilnani when he was appointed Chief Executive Officer. The Board of Directors approved the performance goals and target award for Mr. Schwanz and Mr. Khilnani based on a recommendation by the Compensation Committee. The percentage of achievement of performance goals determined the percentage of the target award which each participant earned. Amounts shown in the Summary Compensation Table reflect awards based on achievement of net sales, earnings per share and/or business unit contribution to earnings per share goals. Determination of the achievement of quantitative performance goals was subject to the completion of the annual audit and certification of CTS 2007 fiscal year results by its independent auditor. CTS paid the awards to participants in the form of lump sum cash payments.

Equity-Based Compensation. The Compensation Committee has historically awarded equity-based compensation to named executive officers on an annual basis. In 2007, the Compensation Committee awarded the named executive officers, other than Mr. Schwanz and Mr. Khilnani when he was appointed Chief Executive Officer, restricted stock units and stock options under the CTS Corporation 2004 Omnibus Long-Term Incentive Plan. The Board of Directors approved the grant of restricted stock units to Mr. Schwanz and Mr. Khilnani under the CTS Corporation 2004 Omnibus Long-Term Incentive Plan based on the recommendation of the Compensation Committee. Restricted stock unit awards distribute one share of CTS common stock for each unit upon vesting. The award recipient does not receive dividends or other rights related to CTS common stock until vested. Restricted stock units generally vest in 20% installments over a period of five years. Non-vested restricted stock units are forfeited upon termination of employment, except in the case of death, disability or change-in-control of the corporation, which events accelerate the vesting of restricted stock units. Stock options are granted on the date of the Compensation Committee and Board of Directors meetings approving the grants. The exercise price under the options is the closing market price of CTS common stock on the New York Stock Exchange on the date of the grant. Options generally vest in 25% installments over a period of four years. Non-vested options are forfeited upon termination of employment, except upon the occurrence of certain events. In the event of a change-in-control, as defined under the severance agreements described above, the vesting of options is accelerated. In the event of death or disability, options continue to become exercisable in installments and may be exercised for a period of one-year following the event. In the event of qualified retirement, options continue to become exercisable in installments and may be exercised prior to the expiration date.

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Outstanding Equity Awards at 2007 Fiscal Year-End

	Option Awards				Stock Awards	
Name (a)	Number of Securities Underlying Unexercised Options Exercisable (b)	Number of Securities Underlying Unexercised Options Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock Held That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock Held That Have Not Vested ($) (h)
Donald K. Schwanz	8,000	24,000(1)	13.68	6/06/2016		
	25,000	25,000(2)	11.11	6/07/2015		
	27,750	9,250(3)	11.04	6/08/2014		
	72,000		9.78	6/11/2013		
	47,013		7.70	7/30/2012		
	100,000		14.02	9/30/2011		
	35,000		23.00	4/17/2011		
	50,000		44.875	1/16/2011		
Vinod M. Khilnani	2,750	8,250(1)	13.68	6/06/2016	83,000(4)	824,190
	11,000	11,000(2)	11.11	6/07/2015		
	13,125	4,375(3)	11.04	6/08/2014		
	20,000		9.78	6/11/2013		
	15,000		7.70	7/30/2012		
	20,000		25.10	5/6/2011		
Donald R. Schroeder	2,250	6,750(1)	13.68	6/06/2016	43,000(5)	426,990
	10,000	10,000(2)	11.11	6/07/2015		
	7,875	2,625(3)	11.04	6/08/2014		
	18,000		9.78	6/11/2013		
	15,000		7.70	7/30/2012		
	12,000		23.00	4/17/2011		
	4,000		50.00	6/22/2010		
James L. Cummins	1,625	4,875(1)	13.68	6/06/2016	34,700(6)	344,571
	4,850	4,850(2)	11.11	6/07/2015		
	5,400	1,800(3)	11.04	6/08/2014		
	14,500		9.78	6/11/2013		
	12,000		7.70	7/30/2012		
	8,000		23.00	4/17/2011		
	3,000		50.00	6/22/2010		

H. Tyler Buchanan	1,750	5,250(1)	13.68	6/06/2016	34,800(7)	345,564
	4,000	4,000(2)	11.11	6/07/2015		
	6,000	2,000(3)	11.04	6/08/2014		
	18,000		9.78	6/11/2013		
	12,000		7.70	7/30/2012		
	8,000		23.00	4/17/2011		
	3,000		50.00	6/22/2010		
	5,000		46.00	10/19/2009		
	6,000		33.625	06/23/2009		
Matthew W. Long	625	1,875(1)	13.68	6/06/2016	19,600(8)	194,628
	1,250	1,250(2)	11.11	6/07/2015		
	1,875	625(3)	11.04	6/08/2014		
	5,000		9.78	6/11/2013		
	4,000		7.70	7/30/2012		
	6,000		23.00	4/17/2011		

(1) Award granted on June 7, 2006 vests in 25% installments each year commencing on June 7, 2007.

(2) Award granted on June 8, 2005 vests in 25% installments each year commencing on June 8, 2006.

(3) Award granted on June 9, 2004 vests in 25% installments each year commencing on June 9, 2005.

(4) 600 restricted shares will vest on January 31, 2008; 1,400 restricted shares will vest on June 12, 2008; 3,600 restricted stock units will vest on June 9, 2008 and 2009; 3,800 restricted stock units will vest on June 8, 2008, 2009 and 2010; 3,100 restricted stock units will vest on June 7, 2008, 2009, 2010 and 2011;

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5,000 restricted stock units will vest on July 2, 2008, 2009, 2010, 2011 and 2012; 25,000 restricted stock units will vest on October 4, 2009.

(5) 1,200 restricted shares will vest on June 12, 2008; 3,200 restricted stock units will vest on June 9, 2008 and 2009; 3,400 restricted stock units will vest on June 8, 2008, 2009 and 2010; 2,800 restricted stock units will vest on June 7, 2008, 2009, 2010 and 2011; 2,800 restricted stock units will vest on June 6, 2008, 2009, 2010, 2011 and 2012.

(6) 1,000 restricted shares will vest on June 12, 2008; 2,600 restricted stock units will vest on June 9, 2008 and 2009; 2,600 restricted stock units will vest on June 8, 2008, 2009 and 2010; 2,300 restricted stock units will vest on June 7, 2008, 2009, 2010 and 2011; 2,300 restricted stock units will vest on June 6, 2008, 2009, 2010, 2011 and 2012.

(7) 1,200 restricted shares will vest on June 12, 2008; 2,800 restricted stock units will vest on June 9, 2008 and 2009; 2,800 restricted stock units will vest on June 8, 2008, 2009 and 2010; 2,400 restricted stock units will vest on June 7, 2008, 2009, 2010 and 2011; 2,000 restricted stock units will vest on June 6, 2008, 2009, 2010, 2011 and 2012.

(8) 200 restricted shares will vest on January 31, 2008; 400 restricted shares will vest on June 12, 2008; 1,200 restricted stock units will vest on June 9, 2008 and 2009; 1,200 restricted stock units will vest on June 8, 2008, 2009 and 2010; 1,000 restricted stock units will vest on June 7, 2008, 2009, 2010 and 2011; 1,000 restricted stock units will vest on June 6, 2008, 2009, 2010, 2011 and 2012; 800 restricted stock units will vest on September 12, 2008, 2009, 2010, 2011 and 2012.

2007 Option Exercises and Stock Vested

	Option Awards		**Stock Awards**	
Name of Executive Officer (a)	**Number of Shares Acquired on Exercise (#) (b)**	**Value Realized Upon Exercise ($) (c)**	**Number of Shares Acquired on Vesting (#) (d)**	**Value Realized on Vesting ($) (e)**
Donald K. Schwanz			82,800	$ 1,023,248(1)
Vinod M. Khilnani			13,700	$ 168,684(2)
Donald R. Schroeder			11,683	$ 142,133(3)
James L. Cummins			9,383	$ 114,161(4)
H. Tyler Buchanan			10,020	$ 124,172(5)
Matthew W. Long			4,000	$ 49,100(6)

(1) Includes $45,144 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

(2) Includes $41,920 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

(3) Includes $28,653 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

(4) Includes $23,629 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

(5) Includes $27,596 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

(6) Includes $8,052 in market value of shares vesting under the 1988 Restricted Stock and Cash Bonus Plan. An equal amount was paid as a cash bonus upon vesting.

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2007 Pension Benefits

To calculate pension benefits, CTS uses a benefit formula is 1.25% of average monthly pay during the three calendar years of the participant s last ten calendar years of service in which the participant received the highest pay, multiplied by a participant s credited service to arrive at a monthly benefit. For calculation purposes, pay includes amounts reported in the salary, bonus and non-equity incentive plan columns of the 2007 Summary Compensation Table. Benefits under the Pension Plan are not subject to any deduction for social security or other offsets. Normal retirement age under the Pension Plan is age 65. Participants with five years of credited service may elect an early retirement benefit at age 55. Mr. Khilnani, Mr. Schroeder and Mr. Buchanan are currently eligible to elect early retirement. Early retirement benefits are reduced by 0.25% for each month that the participant may receive a benefit between the ages of 55 and 65. The normal form of benefit under the Pension Plan is a single life annuity. Married participants receive a reduced benefit under a joint and 50% survivor annuity absent spousal consent to waive this benefit.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Donald K. Schwanz(1)	CTS Corporation Pension Plan	6.78	558,630	
	CTS Corporation Individual Excess Benefit Retirement Plan	11.78(2)	2,091,397	
Vinod M. Khilnani	CTS Corporation Pension Plan	6.78	116,817	
	CTS Corporation Individual Excess Benefit Retirement Plan	6.78	322,824	
Donald R. Schroeder	CTS Corporation Pension Plan	35.44	1,279,498	
	CTS Corporation Individual Excess Benefit Retirement Plan	35.44	1,268,305	
James L. Cummins	CTS Corporation Pension Plan	30.78	744,056	
	CTS Corporation Individual Excess Benefit Retirement Plan	30.78	508,554	
H. Tyler Buchanan	CTS Corporation Pension Plan	30.78	591,966	
	CTS Corporation Individual Excess Benefit Retirement Plan	30.78	708,661	
Matthew W. Long	CTS Corporation Pension Plan	11.56	91,042	

CTS Corporation Individual Excess Benefit Retirement Plan	11.56	5,558

(1) On March 14, 2008, Mr. Schwanz received $469,959 in a lump sum of combined pension and health and welfare benefits differential. On May 13, 2008, Mr. Schwanz will receive approximately $2,128,559 in a lump sum payment from his Individual Excess Benefit Retirement Plan.

(2) The additional five years of service credited to Mr. Schwanz under the CTS Corporation Individual Excess Benefit Retirement Plan increases the present value of his estimated normal retirement annual benefit by $1,124,800 based on the assumption that he takes his benefit as a lump sum calculated as of December 31, 2007.

Pension Benefits. The CTS Corporation Pension Plan is fully described in the section of this Proxy Statement under the caption Retirement Benefits and Plans above.

Potential Payments Upon Termination or Change-in-Control. On December 5, 2007, CTS entered into change-in-control Severance Agreements with each named executive officer, with the exception of

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Mr. Schwanz. There are two versions of the Severance Agreement. The first version is referred to as a Tier 1 Severance Agreement and the second version is referred to as a Tier 2 Severance Agreement. Mr. Khilnani, Mr. Schroeder, Mr. Cummins and Mr. Buchanan entered into the Tier 1 Severance Agreement. Mr. Long has entered into a Tier 2 Severance Agreement.

Under the Tier 1 Severance Agreement, a change-in-control is defined generally as: (1) the acquisition by any person of 25% or more of CTS voting stock, subject to certain exceptions; (2) the incumbent board members ceasing to constitute a majority of the board; (3) a reorganization, merger, consolidation, or sale of all or substantially all of CTS assets, subject to certain exceptions; or (4) the approval by the shareholders of a complete liquidation or dissolution of CTS, subject to certain exceptions.

An executive with a Tier 1 Severance Agreement are entitled to severance compensation if, within three years after a change-in-control, he terminates his employment for good reason or his employment is terminated by the corporation or its successor for any reason other than cause, disability or death, provided that on each anniversary of a change-in-control, the three-year period is automatically extended for one year unless either party provides notice otherwise. Good reason is defined generally as: (1) the failure to maintain the executive in his office or position or an equivalent or better office or position; (2) a significant adverse change in the nature of the executive s duties; (3) a reduction in the executive s base or incentive pay or an adverse change in any employee benefits; (4) the executive s good faith determination that as a result of a change in circumstances following the change-in-control, he is unable to carry out or has suffered a substantial reduction in the duties he had prior to the change-in-control; (5) a successor entity s failure to assume all obligations of the corporation under the Severance Agreement; (6) the corporation or its successor moves the executive s principal work location by more than 35 miles or requires him to travel at least 20% more; (7) the corporation or its successor commits any material breach of the Severance Agreement; or (8) the corporation s stock ceases to be publicly traded or listed on the New York Stock Exchange. An executive who separates from service after the commencement of discussions with a third party that ultimately results in a change-in-control may be treated as separating from service following the change-in-control for purposes of the Severance Agreement.

Compensation under the Tier 1 Severance Agreement includes: (1) a lump sum equal to three times the sum of the greater of the executive s base salary at the time of the change-in-control or his average base salary over the three years prior to termination plus the greater of his average incentive pay over the three years prior to the change-in-control or his target incentive pay for the year in which the change-in-control occurred; (2) continued availability of medical and dental benefits for 36 months following termination at the executive s expense, with the corporation reimbursing the executive for the portion of the premium in excess of the employee share for such coverage (and if such coverage causes the executive to incur tax because it cannot be provided by a corporate plan, the corporation will reimburse the executive for such additional tax), provided that the obligation to provide these benefits will be reduced to the extent medical and dental benefits are provided by another employer; (3) a lump sum payment equal to the increase in actuarial value of the benefits under the corporation s qualified and supplemental retirement plans that the executive would have received had he remained employed for 36 months following his termination date; (4) a lump sum payment equal to 0.90 times three times the executive s average matching contribution percentage under the corporation s 401(k) plan for the three prior years times the lesser of the executive s salary and incentive pay or the maximum amount of compensation that may be taken into account under the 401(k) plan, to compensate for the amounts that the corporation would have contributed to the executive s 401(k) plan account had he remained employed for 36 months following his termination; (5) reimbursement of up to $30,000 for outplacement services; (6) reimbursement of legal, tax and estate planning expense related to the Severance Agreement; (7) a lump sum payment equal to the executive s target incentive pay for the year in which the termination occurs, prorated based on his number of months of actual service during the year; and (8) accelerated vesting, exercise rights and lapse of restrictions on all equity-based compensation awards. In addition, if any payments made to the executive are subject to excise tax under the golden parachute rules of Sections 280G and 4999 of the Internal Revenue Code, he will receive an additional payment to put him in the same after-tax position as if no excise tax had been imposed.

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The Tier 2 Severance Agreement is similar to the Tier 1 described above except that certain eligibility periods and severance amounts are different. Specifically, Tier 2 participants will be entitled to severance compensation if within two years after the change-in-control, the executive terminates his employment for good reason or the corporation or its successor terminates the executive for any reason except cause, disability, or death. The severance eligibility period does not automatically extend under the Tier 2 Severance Agreement.

Further, under the Tier 2 Severance Agreement, compensation to which a participating executive is entitled includes: (1) a lump sum equal to one and one half (1.5) times the sum of the greater of the executive s base salary at the time of the change-in-control or his average base salary over the three years prior to termination plus the greater of his average incentive pay over the three years prior to the change-in-control or his target incentive pay for the year in which the change-in-control occurred; (2) continued availability of medical and dental benefits for 12 months following termination at the executive s expense, with the corporation reimbursing the executive for the portion of the premium in excess of the employee share for such coverage, (and if such coverage causes the executive to incur tax because it cannot be provided by a corporate plan, the corporation will reimburse the executive for such additional tax), provided that the obligation to provide these benefits will be reduced to the extent medical and dental benefits are provided by another employer; (3) a lump sum payment equal to the increase in actuarial value of the benefits under the corporation s qualified and supplemental retirement plans that the executive would have received had he remained employed for 12 months following his termination date; (4) a lump sum payment equal to 0.96 times the executive s average matching contribution percentage under the corporation s 401(k) plan for the three prior years times the lesser of the executive s salary and incentive pay or the maximum amount of compensation that may be taken into account under the 401(k) plan, to compensate for the amounts that the corporation would have contributed to the Executive s 401(k) plan account had he remained employed for 12 months following his termination; (5) reimbursement of up to $15,000 for outplacement services; (6) a lump sum payment equal to the executive s target incentive pay for the year in which the termination occurs, prorated based on his number of months of actual service during the year; and (7) accelerated vesting, exercise rights and lapse of restrictions on all equity-based compensation awards.

In addition, a Tier 2 Severance Agreement does not provide for an additional payment if any amount or benefit to be paid to the executive would constitute an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code. Instead, the payments and benefits under this Severance Agreement will be reduced to the minimum extent necessary so that no portion of any payment or benefit will constitute an excess parachute payment, provided however, that the reduction will be made only if and to the extent that such reduction would result in an increase in the aggregate payment and benefits to be provided, determined on an after tax basis (taking into account the excise tax imposed pursuant to Section 4999, or any successor provision, or any other tax). The period of non-solicitation of corporate employees under this second version is two years from separation of service. In all other material respects, this second version of the Severance Agreement is consistent with the terms of the above-described Tier 1 Severance Agreement.

Severance compensation under both the Tier 1 and the Tier 2 Severance Agreements is designed to comply with Section 409A of the Code; lump sum payments of severance compensation are generally to be made as soon as practicable but not more than ninety days after the executive separates from service, provided however, that if the executive is a specified employee within the meaning of Section 409A of the Internal Revenue Code, then the payment shall be made on the earlier of the first day of the seventh month following the date of the executive s separation from service or the executive s death. Payment of severance compensation under the change-in-control Severance Agreement will be reduced to the extent of any corresponding payments under any other agreement.

To the extent that the executive receives severance benefits under the Severance Agreement, the executive may not, for a period of one year following his termination date, participate in the management of any business which engages in substantial and direct competition with the corporation or its successor. The value of severance in the change-in-control compensation table below has been adjusted to reflect this non-compete provision. In addition, for a period of three years after separation from service, the executive may not

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solicit any corporate employee to leave employment with the corporation or any of its subsidiaries, may not hire or engage any person who was employed with the corporation or any of its subsidiaries and may not assist any organization with whom the executive is associated in taking such actions. The executive is generally entitled to be reimbursed by the corporation for legal fees incurred to enforce his rights under the Severance Agreement. The term of the Severance Agreement began December 5, 2007 and will end December 31, 2011.

Assuming that a change-in-control event occurred and the named executive officer was terminated without cause on December 31, 2007, the estimated severance compensation provided to each named executive officer is as follows:

Name	Vesting of Non-Vested Stock Options	Vesting of Non-Vested Restricted Stock RSUs	Pension Benefit Equivalent	Welfare Benefit Equivalent	Perquisites Outplacement Tax/Estate Planning & Relocation	Severance	Pro Rata Target Incentive	Excise Tax Gross Up	Total
d M. Khilnani		844,050	86,610	44,110	76,450	2,625,000	375,000	989,089	5,040,
s L. mins		354,501	18,914	44,095	76,450	1,168,364	120,465	362,817	2,145,
ld Schroeder		438,906	61,557	31,143	76,450	1,493,550	165,950	0	2,267,
hew W. Long		210,516	9,745	1,606	27,866	335,063	44,675	0	629,
yler Buchanan		357,480	59,021	8,868	76,450	1,188,450	132,050	0	1,822,

* Retirement eligible employees would be entitled to a pro rata portion of their incentive awards under the terms of the incentive plan.

2007 DIRECTOR COMPENSATION

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards(1) ($) (c)	Option Awards(2) ($) (d)	Total ($) (e)
Walter S. Catlow	92,333	43,472	1,749	137,554
Lawrence J. Ciancia	96,500	43,472	1,749	141,721
Thomas G. Cody	92,000	43,472	1,749	137,221
Patricia K. Collawn	81,500	43,472	1,528	126,500
Gerald H. Frieling, Jr.	98,000	43,472	1,749	143,221
Roger R. Hemminghaus(3)	181,000	139,731	1,749	322,480
Michael A. Henning	102,500	43,472	1,749	147,721
Robert A. Profusek	71,250	43,472	1,749	116,471

(1) Amounts in this column reflect the dollar amount of compensation expense recognized by CTS in 2007 with respect to all stock awards to non-employee directors. On December 5, 2007, 4,400 restricted stock units were awarded to each non-employee director for 2007 service, except that Mr. Hemminghaus received 6,600 restricted stock units for service as the Chairman of the Board of Directors. The grant date fair market value for each share in the awards was $10.37. Those awards vested on January 8, 2008 and were distributed upon vesting absent a deferral election by the director. Messrs. Catlow, Ciancia, Hemminghaus, Profusek and Henning and Ms. Collawn elected to defer distribution until their retirement from the Board of Directors. The non-employee directors had no other non-vested stock awards outstanding at fiscal year-end.

(2) Amounts in this column reflect the dollar amount of compensation expense recognized by CTS in 2007 with respect to all option awards to non-employee directors. Non-employee directors did not receive option awards in fiscal year 2007. The number of shares underlying options at fiscal year-end for each non-employee director, other than Ms. Collawn, was 10,800 exercisable and 3,200 unexercisable. The number of shares underlying unexercised options at fiscal year-end for Ms. Collawn was 1,600 exercisable and 1,500 unexercisable.

(3) Includes a July 2, 2007 grant of 6,000 restricted stock units granted to Mr. Hemminghaus upon being named Chairman of the Board of Directors. The grant date fair value of CTS common stock on the date of grant was $13.11. This award vested immediately and was not eligible for deferred distribution.

Director Compensation. Employee directors receive no additional compensation for serving on the Board of Directors or Board of Directors Committees. Compensation for non-employee directors is determined by the Board of Directors based on recommendations by the Compensation Committee.

Non-employee directors receive the following fees for their service on the Board of Directors: annual board retainer $30,000; annual retainer for each Audit Committee member $5,000; annual retainer for each Compensation Committee member $5,000; annual retainer for each Finance Committee member -$3,000, annual retainer for each Nominating and Governance Committee member $3,000; additional annual retainer for Audit Committee Chairman $5,000; additional annual retainer for Compensation Committee Chairman $5,000; additional annual retainer for Finance Committee Chairman $3,000; additional annual retainer for Nominating and Governance Committee Chairman $3,000; meeting fee for each Board of Directors or Committee Meeting $1,500. All committee meetings, including special meetings called by committee chairmen, are compensated at the regular meeting fee rate. Special activity by the committee chairmen, as well as any special activity by another committee member that is requested or approved by a committee chairman, is also compensated at the regular meeting fee rate. CTS reimburses non-employee directors for reasonable travel expenses related to their performance of services and for director education programs.

CTS does not currently have a retirement plan for non-employee directors. In 1990, CTS adopted the Stock Retirement Plan for Non-Employee Directors. Under that plan, a deferred common stock unit account was established for each non-employee director. Through January 2004, 800 common stock units and additional units representing dividends on CTS common stock paid were credited annually to each non-employee director s account. When a non-employee director retires from the Board of Directors, he or she receives one share of CTS common stock for each deferred common stock unit credited to his or her account. On December 1, 2004, the Board of Directors amended the plan to preclude crediting any additional units to the deferred common stock unit accounts. The number of deferred common stock units credited to each director s account as of December 31, 2007 is shown in the Directors and Officers Stock Ownership table above.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee acts pursuant to its written charter adopted by the Board of Directors, a copy of which may be obtained from CTS website at http://www.ctscorp.com/governance/financecharter.htm. All members of the Audit Committee are financially literate and independent as defined in the New York Stock Exchange Corporate Governance Listing Standards.

The Audit Committee has reviewed and discussed with CTS management and Grant Thornton LLP, CTS independent auditor, the audited consolidated financial statements of the corporation for 2007; has discussed with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 5; has received from the independent auditor the written disclosures and letter required by Independence Standards Board of Directors

Standard No. 1, as adopted by The Public Company Accounting Oversight Board of Directors in Rule 3600T; and has discussed with the independent auditor its independence. Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors

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that the financial statements be included in CTS Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the Securities and Exchange Commission.

CTS CORPORATION 2007 AUDIT COMMITTEE

Michael A. Henning, Chairman	Walter S. Catlow
Lawrence J. Ciancia	Gerald H. Frieling, Jr.

INDEPENDENT AUDITOR

CTS dismissed PricewaterhouseCoopers LLP as its independent registered public accounting firm on June 3, 2005. The decision was recommended and unanimously approved by CTS Audit Committee. The Audit Committee appointed Grant Thornton LLP to replace PricewaterhouseCoopers LLP.

Grant Thornton LLP representatives plan to attend the 2008 Annual Meeting of Shareholders of CTS Corporation and will be available to respond to appropriate questions from shareholders. The following table presents fees for professional audit and other services provided by Grant Thornton LLP to CTS for the years ended December 31, 2007 and December 31, 2006.

	Audit Fees	**Audit-Related Fees(1)**	**Tax Fees**	**All Other Fees**
2007	$ 1,470,545	$ 19,077		
2006	$ 2,114,671	$ 126,507		

(1) For 2007, audit-related fees consist of fees billed by Grant Thornton LLP for foreign statutory purposes in the United Kingdom and China.

The Audit Committee s policy is to pre-approve all audit and non-audit services provided by the independent auditor. The Audit Committee annually reviews audit and non-audit services proposed to be rendered by Grant Thornton LLP during the fiscal year. The Audit Committee has delegated authority to the Audit Committee Chairman to grant pre-approval of services by the independent auditor, provided that the Chairman reports on any such pre-approval decisions at the next scheduled meeting of the Audit Committee. None of the services rendered by Grant Thornton LLP were approved by the Audit Committee after the services were rendered pursuant to the de minimis exception established under the rules of the Securities and Exchange Commission.

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2007 Annual Report on Form 10-K

Upon receipt of the written request of a CTS shareholder owning shares of common stock on the Record Date addressed to Richard G. Cutter, Secretary of CTS Corporation, 905 West Boulevard North, Elkhart, Indiana 46514, CTS will provide to such shareholder, without charge, a copy of its 2007 Annual Report on Form 10-K, including the financial statements and financial statement schedule. The report is also available on CTS website at http://www.ctscorp.com.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 30, 2008.

This proxy statement, along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and our 2007 Annual Report, are available free of charge on the Investor Relations section of our website at http://www.ctscorp.com/investor_relations/investor.htm.

By Order of the Board of Directors,

Richard G. Cutter
Secretary

Elkhart, Indiana
April 28, 2008

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CTS CORPORATION
c/o National City Bank
Shareholder Services Operations
Locator 5352
P. O. Box 94509
Cleveland, OH 44101-4509

Proxy card must be signed and dated below.

ò **Please fold and detach card at perforation before mailing.** ò

CTS CORPORATION
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE ANNUAL MEETING OF SHAREHOLDERS ON MAY 30, 2008.

The undersigned, having received the Notice of Annual Meeting of Shareholders and the Proxy Statement hereby appoints Roger R. Hemminghaus and Richard G. Cutter as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse, all shares of Common Stock of CTS Corporation held of record by the undersigned on April 15, 2008 at the Annual Meeting of Shareholders originally convened on May 30, 2008 and at any adjournment thereof.

Signature

Signature (If held jointly)

Please sign exactly as shown hereon. When shares are held by joint tenants, both must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If partnership, please sign in partnership name by authorized person.

Dated: 2008

PLEASE DATE, SIGN AND RETURN THE PROXY CARD PROMPTLY, USING THE ENCLOSED ENVELOPE.

YOUR VOTE IS IMPORTANT

Please sign and date this proxy card and return it promptly in the enclosed postage-paid envelope, or otherwise to National City Bank, P.O. Box 535300, Pittsburgh, PA 15253, so that your shares may be represented at the Annual Meeting.

òPlease fold and detach card at perforation before mailing.ò

CTS CORPORATION ***PROXY***

This Proxy, when properly executed, will be voted in the manner directed herein. If not otherwise marked, this Proxy will be voted FOR the election of all nominees listed below and FOR item 2.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR ALL NOMINEES LISTED BELOW AND FOR THE RATIFICATION OF GRANT THORNTON LLP AS CTS INDEPENDENT AUDITORS AS PROPOSED IN ITEM 2.

1. ELECTION OF DIRECTORS

Nominees:	(1) W. S. Catlow	(2) L. J. Ciancia	(3) T. G. Cody
	(4) P. K. Collawn	(5) G. H. Frieling, Jr.	(6) R. R. Hemminghaus
	(7) M. A. Henning	(8) V. M. Khilnani	(9) R. A. Profusek

` o **FOR** all nominees listed above. (except as listed to the contrary below)

o **WITHHOLD AUTHORITY** to vote for all nominees listed above.

To withhold authority to vote for any individual nominee, write that nominee s name below:

2. RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS CTS INDEPENDENT PUBLIC AUDIT FIRM.

o **FOR** o **AGAINST** o **ABSTAIN**

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting, or any adjournment thereof.

IMPORTANT THIS PROXY MUST BE SIGNED AND DATED ON THE REVERSE SIDE

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