

COMMUNICATIONS SYSTEMS INC  
Form 10-Q  
November 10, 2011  
[Table of Contents](#)

---

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2011**

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: 001-31588

**COMMUNICATIONS SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of  
incorporation or organization)

41-0957999

(Federal Employer  
Identification No.)

10900 Red Circle Drive, Minnetonka, MN

(Address of principal executive offices)

55343

(Zip Code)

(952) 996-1674

Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined by Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Edgar Filing: COMMUNICATIONS SYSTEMS INC - Form 10-Q

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Name of Exchange On Which Registered	Outstanding at November 1, 2011
Common Stock, par value \$.05 per share	NASDAQ	8,465,840

---

---

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

	<b>Page No.</b>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Income and Comprehensive Income (Loss)</u>	4
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26
Item 4. Controls and Procedures	26
Part II. Other Information	26
<u>SIGNATURES</u>	
CERTIFICATIONS	

Table of Contents

**COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30 2011	December 31 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 20,084,605	\$ 16,787,558
Investments	18,780,107	21,698,905
Trade accounts receivable, less allowance for doubtful accounts of \$283,000 and \$500,000, respectively	21,403,472	17,544,136
Inventories	26,012,133	24,498,935
Prepaid income taxes	570,567	296,586
Other current assets	954,437	908,102
Deferred income taxes	3,616,487	4,469,941
<b>TOTAL CURRENT ASSETS</b>	<b>91,421,808</b>	<b>86,204,163</b>
PROPERTY, PLANT AND EQUIPMENT, net	13,424,106	13,214,067
<b>OTHER ASSETS:</b>		
Investments	4,458,186	4,588,267
Goodwill	5,320,707	4,560,217
Prepaid pensions	326,178	349,575
Other assets	1,762,620	153,938
<b>TOTAL OTHER ASSETS</b>	<b>11,867,691</b>	<b>9,651,997</b>
<b>TOTAL ASSETS</b>	<b>\$ 116,713,605</b>	<b>\$ 109,070,227</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 420,131	\$ 399,209
Accounts payable	4,070,190	5,385,558
Accrued compensation and benefits	5,043,674	3,951,401
Other accrued liabilities	3,376,121	1,669,776
Dividends payable	1,288,875	1,263,434
<b>TOTAL CURRENT LIABILITIES</b>	<b>14,198,991</b>	<b>12,669,378</b>
<b>LONG TERM LIABILITIES:</b>		
Long-term compensation plans	257,572	1,738,105
Income taxes payable	683,081	678,395
Deferred income taxes	1,113,730	585,317
Long term debt - mortgage payable	1,684,574	2,002,339
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>3,738,957</b>	<b>5,004,156</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$1.00 per share; 3,000,000 shares authorized; none issued		
Common stock, par value \$.05 per share; 30,000,000 shares authorized; 8,461,032 and 8,422,890 shares issued and outstanding, respectively	423,051	421,144
Additional paid-in capital	35,419,658	34,491,370
Retained earnings	63,320,527	56,769,816
Accumulated other comprehensive loss, net of tax	(387,579)	(285,637)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>98,775,657</b>	<b>91,396,693</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 116,713,605</b>	<b>\$ 109,070,227</b>

Edgar Filing: COMMUNICATIONS SYSTEMS INC - Form 10-Q

The accompanying notes are an integral part of the condensed consolidated financial statements.

3

---

Table of Contents

**COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**INCOME AND COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Sales from operations	\$ 41,984,570	\$ 33,323,793	\$ 118,437,057	\$ 89,864,628
Costs and expenses:				
Cost of sales	25,429,300	18,013,809	70,097,713	50,755,575
Selling, general and administrative expenses	10,071,408	9,005,699	29,189,378	26,492,580
Goodwill impairment	0	0	1,271,986	0
Total costs and expenses	35,500,708	27,019,508	100,559,077	77,248,155
Operating income	6,483,862	6,304,285	17,877,980	12,616,473
Other income and (expenses):				
Investment and other income	138,990	92,363	275,852	177,788
Gain (loss) on sale of assets	5,310	9,763	(4,674)	1,143
Interest and other expense	(53,256)	(51,854)	(149,107)	(160,305)
Other income, net	91,044	50,272	122,071	18,626
Income before income taxes	6,574,906	6,354,557	18,000,051	12,635,099
Income tax expense	2,845,269	2,355,163	7,627,910	4,889,452
Net income	3,729,637	3,999,394	10,372,141	7,745,647
Other comprehensive income (loss), net of tax:				
Additional minimum pension liability adjustments	(8,534)	(17,009)	(26,952)	(30,590)
Unrealized gains (losses) on available-for-sale securities	(5,094)	11,779	(30,510)	13,259
Foreign currency translation adjustment	(112,581)	149,786	(44,480)	(60,059)
Total other comprehensive income (loss), net of tax	(126,209)	144,556	(101,942)	(77,390)
Comprehensive net income	\$ 3,603,428	\$ 4,143,950	\$ 10,270,199	\$ 7,668,257
Basic net income per share:	\$ 0.44	\$ 0.48	\$ 1.23	\$ 0.92
Diluted net income per share:	\$ 0.44	\$ 0.48	\$ 1.22	\$ 0.92
Average Basic Shares Outstanding	8,460,625	8,398,496	8,442,812	8,376,542
Average Dilutive Shares Outstanding	8,530,187	8,414,865	8,500,022	8,401,212
Dividends per share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.44

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

**COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	
			Capital		Comprehensive	
					Income (Loss)	
BALANCE AT DECEMBER 31, 2010	8,422,890	\$ 421,144	\$ 34,491,370	\$ 56,769,816	\$ (285,637)	\$ 91,396,693
Net income				10,372,141		10,372,141
Issuance of common stock under Employee Stock Purchase Plan	6,649	332	104,377			104,709
Issuance of common stock to Employee Stock Ownership Plan	22,493	1,125	314,902			316,027
Issuance of common stock under Non-Employee Stock Option Plan	9,000	450	72,450			72,900
Tax benefit from non-qualified stock options			23,227			23,227
Share based compensation			413,332			413,332
Shareholder dividends				(3,821,430)		(3,821,430)
Other comprehensive income					(101,942)	(101,942)
BALANCE AT SEPTEMBER 30, 2011	8,461,032	\$ 423,051	\$ 35,419,658	\$ 63,320,527	\$ (387,579)	\$ 98,775,657

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

**COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 10,372,141	\$ 7,745,647
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,571,423	1,418,065
Share-based compensation	413,332	39,093
Deferred income taxes	&nbsp;	