

COMMUNICATIONS SYSTEMS INC
Form 10-Q
May 10, 2012
[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 March 31, 2012

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

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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 May 1, 2012 |
|--|---|----------------------------|
| Common Stock, par value \$.05 per share | NASDAQ | 8,510,429 |

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

| | Page No. |
|--|-----------------|
| 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</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 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 24 |
| <u>Item 4. Controls and Procedures</u> | 24 |
| Part II. <u>Other Information</u> | 24 |
| <u>SIGNATURES</u> | 26 |
| CERTIFICATIONS | |

Table of Contents

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

| | March 31 2012 | December 31 2011 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 19,475,485 | \$ 22,515,710 |
| Investments | 18,307,407 | 18,635,601 |
| Trade accounts receivable, less allowance for doubtful accounts of \$206,000 and \$175,000, respectively | 14,345,504 | 14,461,168 |
| Inventories | 27,111,734 | 25,986,003 |
| Prepaid income taxes | 3,969,699 | 3,893,003 |
| Other current assets | 878,075 | 999,863 |
| Deferred income taxes | 3,421,569 | 3,455,047 |
| TOTAL CURRENT ASSETS | 87,509,473 | 89,946,395 |
| PROPERTY, PLANT AND EQUIPMENT, net | 14,097,633 | 14,019,019 |
| OTHER ASSETS: | | |
| Investments | 2,872,418 | 4,883,510 |
| Goodwill | 5,990,571 | 5,990,571 |
| Prepaid pensions | 1,072,748 | 905,552 |
| Other assets | 904,503 | 913,869 |
| TOTAL OTHER ASSETS | 10,840,240 | 12,693,502 |
| TOTAL ASSETS | \$ 112,447,346 | \$ 116,658,916 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 465,320 | \$ 427,345 |
| Accounts payable | 4,427,151 | 4,398,848 |
| Accrued compensation and benefits | 2,181,113 | 5,870,000 |
| Accrued consideration | 994,861 | 1,002,623 |
| Other accrued liabilities | 2,129,588 | 2,388,867 |
| Dividends payable | 1,402,331 | 1,299,963 |
| TOTAL CURRENT LIABILITIES | 11,600,364 | 15,387,646 |
| LONG TERM LIABILITIES: | | |
| Long-term compensation plans | 327,958 | 283,075 |
| Income taxes payable | 413,960 | 405,673 |
| Deferred income taxes | 1,499,025 | 1,476,969 |
| Long term debt - mortgage payable | 1,432,895 | 1,574,993 |
| TOTAL LONG-TERM LIABILITIES | 3,673,838 | 3,740,710 |
| COMMITMENTS AND CONTINGENCIES (Footnote 7) | | |
| STOCKHOLDERS EQUITY | | |
| 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; 8,506,734 and 8,466,774 shares issued and outstanding, respectively | 425,337 | 423,339 |
| Additional paid-in capital | 36,204,926 | 35,533,273 |
| Retained earnings | 60,149,314 | 61,466,342 |
| Accumulated other comprehensive income, net of tax | 393,567 | 107,606 |
| TOTAL STOCKHOLDERS EQUITY | 97,173,144 | 97,530,560 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 112,447,346 | \$ 116,658,916 |

Table of Contents

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

| | Three Months Ended March 31 | |
|--|------------------------------------|---------------|
| | 2012 | 2011 |
| Sales from operations | \$ 24,243,922 | \$ 31,022,802 |
| Costs and expenses: | | |
| Cost of sales | 14,295,294 | 17,694,313 |
| Selling, general and administrative expenses | 9,818,182 | 9,187,210 |
| Total costs and expenses | 24,113,476 | 26,881,523 |
| Operating income | 130,446 | 4,141,279 |
| Other income and (expenses): | | |
| Investment and other income (loss) | (20,698) | 79,422 |
| Gain (loss) on sale of assets | 20,572 | (12,220) |
| Interest and other expense | (36,759) | (48,043) |
| Other income (expense), net | (36,885) | 19,159 |
| Income before income taxes | 93,561 | 4,160,438 |
| Income tax expense | 38,483 | 1,602,600 |
| Net income | 55,078 | 2,557,838 |
| Other comprehensive income, net of tax: | | |
| Additional minimum pension liability adjustments | 135,892 | (9,218) |
| Unrealized gains (losses) on available-for-sale securities | 12,052 | (15,328) |
| Foreign currency translation adjustment | 138,017 | 68,057 |
| Total other comprehensive income, net of tax | 285,961 | 43,511 |
| Comprehensive net income | \$ 341,039 | \$ 2,601,349 |
| Basic net income per share: | \$ 0.01 | \$ 0.30 |
| Diluted net income per share: | \$ 0.01 | \$ 0.30 |
| Average Basic Shares Outstanding | 8,473,774 | 8,425,003 |
| Average Dilutive Shares Outstanding | 8,510,345 | 8,469,845 |
| Dividends per share | \$ 0.16 | \$ 0.15 |

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 Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|------------------------|------------------------|----------------------------------|----------------------|---|---------------|
| BALANCE AT DECEMBER 31, 2011 | 8,466,774 | \$ 423,339 | \$ 35,533,273 | \$ 61,466,342 | \$ 107,606 | \$ 97,530,560 |
| Net income | | | | 55,078 | | 55,078 |
| Issuance of common stock under Employee Stock Purchase Plan | 3,241 | 162 | 45,406 | | | 45,568 |
| Issuance of common stock to Employee Stock Ownership Plan | 36,145 | 1,806 | 506,392 | | | 508,198 |
| Issuance of common stock under Executive Stock Plan | 574 | 30 | 8,811 | | | 8,841 |
| Share based compensation | | | 111,044 | | | 111,044 |
| Shareholder dividends | | | | (1,372,106) | | (1,372,106) |
| Other comprehensive income | | | | | 285,961 | 285,961 |
| BALANCE AT MARCH 31, 2012 | 8,506,734 | \$ 425,337 | \$ 36,204,926 | \$ 60,149,314 | \$ 393,567 | \$ 97,173,144 |

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)

| | Three Months Ended March 31 | |
|---|------------------------------------|--------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 55,078 | \$ 2,557,838 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 584,690 | 499,221 |
| Share-based compensation | 111,044 | 80,173 |
| Deferred income taxes | 55,533 | 142,881 |
| (Gain) loss on sale of assets | (20,572) | 12,220 |
| Excess tax benefit from stock based payments | | (7,280) |
| Changes in assets and liabilities: | | |
| Trade receivables | 148,107 | (1,853,282) |
| Inventories | (1,082,165) | (482,030) |
| Prepaid income taxes | (76,842) | 296,586 |
| Other assets | 132,159 | (681,740) |
| Accounts payable | 9,451 | (254,581) |
| Accrued compensation and benefits | (3,136,397) | (723,597) |
| Other accrued expenses | (235,703) | (115,352) |
| Income taxes payable | 8,287 | 887,609 |
| Net cash (used in) provided by operating activities | (3,447,330) | 358,666 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (681,099) | (443,602) |
| Purchases of investments | (2,007,701) | (7,125,746) |
| Acquisition of business, net of cash acquired | (43,639) | |
| Proceeds from the sale of fixed assets | 74,372 | |
| Proceeds from the sale of investments | 4,359,039 | 7,350,000 |
| Net cash provided by (used in) investing activities | 1,700,972 | (219,348) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (1,269,737) | (1,263,434) |
| Mortgage principal payments | (104,123) | (97,268) |
| Proceeds from issuance of common stock | 54,409 | 45,511 |