

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

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 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
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4. <u>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