

COMMUNICATIONS SYSTEMS INC
Form 10-Q
May 10, 2013
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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, 2013**

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 x 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

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the registrant was required to submit and post such files). YES x NO o

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 o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

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, 2013
Common Stock, par value \$.05 per share	NASDAQ	8,529,037

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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

	March 31 2013	December 31 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,824,540	\$ 17,869,712
Investments	10,679,437	12,701,538
Trade accounts receivable, less allowance for doubtful accounts of \$55,000 and \$69,000, respectively	18,358,611	14,683,227
Inventories	36,980,325	33,752,710
Prepaid income taxes	2,015,128	2,113,926
Other current assets	922,561	783,352
Deferred income taxes	4,144,404	4,013,628
TOTAL CURRENT ASSETS	83,925,006	85,918,093
PROPERTY, PLANT AND EQUIPMENT, net	14,403,000	14,474,913
OTHER ASSETS:		
Investments	6,203,992	5,376,397
Goodwill	5,797,671	5,956,934
Other assets	739,931	808,308
TOTAL OTHER ASSETS	12,741,594	12,141,639
TOTAL ASSETS	\$ 111,069,600	112,534,645

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 465,320	\$ 457,464
Accounts payable	7,990,304	9,237,233
Accrued compensation and benefits	2,536,366	3,044,864
Accrued consideration	581,750	770,041
Other accrued liabilities	1,955,024	1,670,009
Dividends payable	1,453,035	61,833
TOTAL CURRENT LIABILITIES	14,981,799	15,241,444
LONG TERM LIABILITIES:		
Long-term compensation plans	42,069	350,457
Uncertain tax positions	327,221	320,426
Deferred income taxes	1,423,459	1,381,785
Pension liabilities	325,810	127,611
Long-term debt - mortgage payable	998,211	1,117,529
TOTAL LONG-TERM LIABILITIES	3,116,770	3,297,808

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; 8,523,719 and 8,474,896 shares issued and outstanding, respectively	426,186	423,745
Additional paid-in capital	37,087,003	36,404,518
Retained earnings	56,606,937	57,755,178
Accumulated other comprehensive loss	(1,149,095)	(588,048)
TOTAL STOCKHOLDERS EQUITY	92,971,031	93,995,393

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY **\$ 111,069,600** **\$ 112,534,645**

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

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

	Three Months Ended March 31	
	2013	2012
Sales	\$ 27,452,731	\$ 24,243,922
Costs and expenses:		
Cost of sales	17,676,804	14,295,294
Selling, general and administrative expenses	9,405,150	9,818,182
Total costs and expenses	27,081,954	24,113,476
Operating income	370,777	130,446
Other income and (expenses):		
Investment and other income (expense)	87,291	(20,698)
(Loss)/gain on sale of assets	(47,262)	20,572
Interest and other expense	(29,386)	(36,759)
Other income (loss), net	10,643	(36,885)
Income from operations before income taxes	381,420	93,561
Income tax expense	139,061	38,483
Net income	242,359	55,078
Other comprehensive income (loss), net of tax:		
Additional minimum pension liability adjustments	(205,815)	135,892
Unrealized gains/(losses) on available-for-sale securities	(12,078)	12,052
Foreign currency translation adjustment	(343,154)	138,017
Total other comprehensive (loss) income	(561,047)	285,961
Comprehensive (loss) income	\$ (318,688)	\$ 341,039
Basic net income per share:	\$ 0.03	\$ 0.01
Diluted net income per share:	\$ 0.03	\$ 0.01
Weighted Average Basic Shares Outstanding	8,486,533	8,473,774
Weighted Average Dilutive Shares Outstanding	8,496,318	8,510,345
Dividends declared per share	\$ 0.16	\$ 0.16

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

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

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	
			Capital		Loss	
BALANCE AT DECEMBER 31, 2012	8,474,896	\$ 423,745	\$ 36,404,518	\$ 57,755,178	\$ (588,048)	\$ 93,995,393
Net income				242,359		242,359
Issuance of common stock under Employee Stock Purchase Plan	4,225	211	43,729			43,940
Issuance of common stock to Employee Stock Ownership Plan	44,598	2,230	461,589			463,819
Share based compensation			177,167			177,167
Shareholder dividends				(1,390,600)		(1,390,600)
Other comprehensive loss					(561,047)	(561,047)
BALANCE AT MARCH 31, 2013	8,523,719	\$ 426,186	\$ 37,087,003	\$ 56,606,937	\$ (1,149,095)	\$ 92,971,031

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

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

	Three Months Ended March 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 242,359	\$ 55,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	485,793	584,690
Share based compensation	177,167	111,044
Deferred taxes	(89,101)	55,533
Change in fair value of acquisition-related contingent consideration	27,231	
Loss/(gain) on sale of assets	47,262	(20,572)
Changes in assets and liabilities:		
Trade receivables	(3,707,328)	148,107
Inventories	(3,309,289)	(1,082,165)
Prepaid income taxes	111,201	(76,842)
Other assets	(137,257)	132,159
Accounts payable	(1,229,882)	9,451
Accrued compensation and benefits	(350,808)	(3,136,397)
Other accrued liabilities	255,243	(235,703)
Income taxes payable	(5,499)	8,287
Net cash used in operating activities	(7,482,908)	(3,447,330)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(479,129)	(681,099)
Purchases of investments	(2,932,571)	(2,007,701)
Acquisition of business		(43,639)
Proceeds from the sale of fixed assets	24,971	74,372
Proceeds from the sale of investments	4,115,000	4,359,039
Net cash provided by investing activities	728,271	1,700,972
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid		(1,269,737)
Mortgage principal payments	(111,462)	(104,123)
Proceeds from issuance of common stock	43,940	54,409
Payment of contingent consideration related to acquisition	(161,060)	
Net cash used in financing activities	(228,582)	(1,319,451)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(61,953)	25,584
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,045,172)	(3,040,225)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,869,712	22,515,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,824,540	\$ 19,475,485
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 116,297	\$ 62,934
Interest paid	26,261	35,822
Dividends declared not paid	1,363,795	1,355,294

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

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COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Communications Systems, Inc. (herein collectively called "CSI" or the "Company") is a Minnesota corporation organized in 1969 which operates directly and through its subsidiaries located in the United States, Costa Rica, the United Kingdom and China. CSI is principally engaged through its Suttle business unit in the manufacture and sale of modular connecting and wiring devices for voice and data communications, digital subscriber line filters, and structured wiring systems and through its Transition Networks business unit in the manufacture of media and rate conversion products for telecommunications networks. CSI also provides through its JDL Technologies ("JDL") business unit IT solutions including network design, computer infrastructure installations, IT service management, change management, network security and network operations services.

Financial Statement Presentation

The condensed consolidated balance sheets and condensed consolidated statement of changes in stockholders' equity as of March 31, 2013 and the related condensed consolidated statements of income and comprehensive income, and the condensed consolidated stat