

COMMUNICATIONS SYSTEMS INC

Form 10-Q

November 13, 2008

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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 **September 30, 2008**

☐ **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

41-0957999

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(State or other jurisdiction of
incorporation or organization)

(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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

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

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

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 5, 2008
Common Stock, par value \$.05 per share	NASDAQ	8,579,530

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2008	December 31 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,429,781	\$ 29,427,879
Trade accounts receivable, less allowance for doubtful accounts of \$184,000 and \$198,000, respectively	24,546,023	17,550,391
Inventories	26,130,714	28,102,468
Prepaid income taxes	1,272,840	1,418,576
Other current assets	859,358	993,881
Deferred income taxes	3,205,893	3,291,009
TOTAL CURRENT ASSETS	86,444,609	80,784,204
PROPERTY, PLANT AND EQUIPMENT, net	12,712,517	13,944,597
OTHER ASSETS:		
Goodwill	4,560,217	5,264,095
Deferred income taxes	1,174,215	232,011
Funded pension assets	359,865	395,465
Other assets	134,728	139,941
TOTAL OTHER ASSETS	6,229,025	6,031,512

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TOTAL ASSETS	\$ 105,386,151	\$ 100,760,313
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LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 342,489	\$ 322,309
Accounts payable	4,710,620	\$ 3,941,648
Accrued compensation and benefits	3,313,748	3,739,987
Other accrued liabilities	2,113,551	1,864,355
Income taxes payable	2,580,440	887,397
Dividends payable	1,034,428	1,029,130

TOTAL CURRENT LIABILITIES	14,095,276	11,784,826
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LONG TERM LIABILITIES:		
Long-term compensation plans	402,715	596,280
Income taxes payable	1,170,637	325,778
Long term debt - mortgage payable	2,863,807	3,122,847

TOTAL LONG-TERM LIABILITIES	4,437,159	4,044,905
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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; 8,579,531 and 8,541,205 shares issued and outstanding, respectively		
	428,976	427,060
Additional paid-in capital	34,226,335	33,521,963
Retained earnings	51,631,858	49,784,593
Accumulated other comprehensive income	566,547	1,196,966

TOTAL STOCKHOLDERS EQUITY	86,853,716	84,930,582
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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 105,386,151	\$ 100,760,313
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The accompanying notes are an integral part of the consolidated financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Sales from operations	\$ 32,682,521	\$ 33,091,270	\$ 94,294,798	\$ 92,792,436
Costs and expenses:				
Cost of sales	19,155,707	22,152,370	58,055,730	59,431,856
Selling, general and administrative expenses	8,291,013	8,435,884	24,875,451	24,801,488
Impairment and other charges related to JDL (Notes 4 and 11)	0	0	2,999,441	0
Total costs and expenses	27,446,720	30,588,254	85,930,622	84,233,344

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Operating income	5,235,801	2,503,016	8,364,176	8,559,092
Other income and (expenses):				
Investment and other income	121,847	231,331	441,106	709,825
Gain (loss) on sale of assets	194,755	0	280,959	
Interest and other expense	(57,276)	(6,382)	(145,037)	(19,404)
Other income, net	259,326	224,949	577,028	690,421
Income before income taxes	5,495,127	2,727,965	8,941,204	9,249,513
Income tax expense	2,701,000	926,000	3,700,000	3,191,000
Net income	2,794,127	1,801,965	5,241,204	6,058,513
Other comprehensive (loss) income:				
Unrecognized actuarial gain (loss) to pension obligation	(55,825)	0	(127,915)	0
Foreign currency translation adjustment	(365,484)	103,708	(502,504)	170,875
Total other comprehensive income	(421,309)	103,708	(630,419)	170,875
Comprehensive Net income	\$ 2,372,818	\$ 1,905,673	\$ 4,610,785	\$ 6,229,388
Basic net income per share:	\$.33	\$.20	\$.61	\$.69
Diluted net income per share:	\$.32	\$.20	\$.61	\$.68
Average Basic Shares Outstanding	8,579,530	8,803,295	8,599,558	8,823,284
Average Dilutive Shares Outstanding	8,612,194	8,869,657	8,638,465	8,892,697
Dividends per share	\$.12	\$.10	\$.36	\$.30

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2007	8,541,205	\$ 427,060	\$ 33,521,963	\$ 49,784,593	\$ 1,196,966	\$ 84,930,582
Net income				5,241,204		\$ 5,241,204
Issuance of common stock under Employee Stock Purchase Plan	7,947	397	85,674			\$ 86,071
Issuance of common stock to Employee Stock Ownership Plan	38,296	1,915	454,574			\$ 456,489
Issuance of common stock under Employee Stock Option Plan	35,800	1,790	262,405			\$ 264,195
Tax benefit from non-qualified employee stock options			34,216			\$ 34,216
Share based compensation			41,824			\$ 41,824

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Purchase of common stock	(43,717)	(2,186)	(174,321)	(290,256)	\$	(466,763)
Shareholder dividends				(3,103,683)	\$	(3,103,683)
Other comprehensive income					(630,419)	\$ (630,419)
BALANCE AT SEPTEMBER 30, 2008	8,579,531	428,976	34,226,335	51,631,858	566,547	86,853,716

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

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

Nine Months Ended September. 30
2008 2007

CASH FLOWS FROM OPERATING ACTIVITIES: