

COMMUNICATIONS SYSTEMS INC
Form DEF 14A
April 11, 2008

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Communications Systems, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(4) Date Filed:

Table of Contents

COMMUNICATIONS SYSTEMS, INC.

10900 Red Circle Drive

Minnetonka, Minnesota 55343

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 21, 2008

Notice is hereby given that the Annual Meeting of Shareholders of Communications Systems, Inc. (the Company) will be held at the Company's offices located at 10900 Red Circle Drive, Minnetonka, Minnesota, on Thursday, May 21, 2008 beginning at 10:00 a.m., Central Daylight Time, for the following purposes:

1. To elect three (3) directors to hold office until the 2011 Annual Meeting of Shareholders or until their successors are elected.
2. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 28, 2008 as the record date for determination of shareholders entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

David T. McGraw,

Secretary

Minnetonka, Minnesota

April 9, 2008

If you expect to attend the Annual Meeting of Shareholders and are not familiar

with the location of the Company's offices in Minnetonka, Minnesota, please call

(952) 996-1674 and request that directions be sent to you by mail, email or fax.

TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE, WHETHER OR NOT YOU EXPECT TO ATTEND IN PERSON. SHAREHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY SO DESIRE.

COMMUNICATIONS SYSTEMS, INC.

PROXY STATEMENT

TABLE OF CONTENTS

<u>GENERAL INFORMATION</u>	1
<u>Information Regarding the Annual Meeting</u>	1
<u>Solicitation and Revocation of Proxies</u>	1
<u>Voting Securities and Record Date</u>	1
<u>CORPORATE GOVERNANCE AND BOARD MATTERS</u>	2
<u>General</u>	2
<u>The Board, Board Committees and Meetings</u>	2
<u>Director Independence</u>	3
<u>Selecting Nominees for Election to the Board</u>	4
<u>Director Compensation</u>	4
<u>Code of Ethics and Business Conduct</u>	4
<u>Contacting the Board of Directors</u>	4
<u>ELECTION OF DIRECTORS</u>	5
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	7
<u>Summary Ownership Table</u>	7
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	8

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<u>EXECUTIVE COMPENSATION AND RELATED INFORMATION</u>	8
<u>Compensation Philosophy and Overview of Executive Officer Compensation</u>	9
<u>Discussion of Elements of Executive Officer Compensation</u>	9
<u>SUMMARY EXECUTIVE COMPENSATION TABLE</u>	11
<u>Outstanding Equity Awards at Fiscal Year-End</u>	12
<u>DIRECTOR COMPENSATION</u>	13
<u>THE COMPANY'S AUDITORS</u>	14
<u>Principal Accountant Fees and Services</u>	14
<u>Audit Committee Pre-approval Policies and Procedures</u>	14
<u>AUDIT COMMITTEE REPORT</u>	14
<u>OTHER INFORMATION</u>	15
<u>Contacting the Board of Directors</u>	15
<u>Shareholder Proposals for 2009 Annual Meeting</u>	15
<u>Other Matters: Annual Report</u>	16

Table of Contents

COMMUNICATIONS SYSTEMS, INC.

PROXY STATEMENT

GENERAL INFORMATION

Information Regarding the Annual Meeting

This Proxy Statement is furnished to the shareholders of Communications Systems, Inc. ("CSI" or the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the Annual Meeting of Shareholders that will be held at the Company's offices at 10900 Red Circle Drive, Minnetonka, Minnesota, on Thursday, May 21, 2008, beginning at 10:00 a.m., Central Daylight Time, or at any adjournment or adjournments thereof. The cost of this solicitation will be paid by the Company. In addition to solicitation by mail, officers, directors and employees of the Company may solicit proxies by telephone, email or in person. The Company may also request banks and brokers to solicit their customers who have a beneficial interest in the Company's Common Stock registered in the names of nominees and will reimburse such banks and brokers for their reasonable out-of-pocket expenses.

Solicitation and Revocation of Proxies

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Any proxy may be revoked at any time before it is voted by receipt of a proxy properly signed and dated subsequent to an earlier proxy, or by revocation of a proxy by written request or in person at the Annual Meeting. If not so revoked, the shares represented by such proxy will be voted by the persons designated as proxies in favor of the matters indicated. In the event any other matters that properly come before the meeting require a vote of shareholders, the shares represented by the proxies will be voted by persons named as proxies in accordance with their judgment on such matters. The Company's corporate offices are located at 10900 Red Circle Drive, Minnetonka, Minnesota, 55343, and its telephone number is (952) 996-1674. The mailing of this Proxy Statement to shareholders of the Company commenced on or about April 11, 2008.

Voting Securities and Record Date

The total number of shares outstanding and entitled to vote at the meeting as of March 28, 2008 consisted of 8,615,543 shares of \$.05 par value Common Stock. Only shareholders of record at the close of business on March 28, 2008 will be entitled to vote at the meeting. Each share of Common Stock is entitled to one vote. Cumulative voting in the election of directors is not permitted. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at the Annual Meeting of Shareholders constitutes a quorum for the transaction of business.

Under Minnesota law, each item of business properly presented at a meeting of shareholders generally must be approved by the affirmative vote of the holders of a majority of the voting power of the shares present, in person or by proxy, and entitled to vote on that item of business. However, if the shares present and entitled to vote on any particular item of business would not constitute a quorum for the transaction of business at the meeting, then that item must be approved by holders of a majority of the minimum number of shares that would constitute such a quorum. Votes cast by proxy or in person at the Annual Meeting of Shareholders will be tabulated at the meeting to determine whether or not a quorum is present. Abstentions on a particular item of business will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining approval of the matter. For shares held in street name, if a broker indicates on the proxy that it does not have discretionary authority as to such shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter, but they are counted as present for the purpose of determining the presence of a quorum.

Table of Contents

CORPORATE GOVERNANCE AND BOARD MATTERS

General

Our Board of Directors is committed to sound and effective corporate governance practices. We periodically review our governance policies and practices and compare them to those suggested by authorities in corporate governance and the practices of other public companies. We also assess our governance policies and practices in relation to the provisions of the Sarbanes-Oxley Act of 2002, rules of the Securities and Exchange Commission (the "SEC") and listing standards of the American Stock Exchange ("AMEX") to ensure our continued compliance.

You can access our corporate governance charters and other related materials in the "Investor Resources" section of our website under "Corporate Governance" at <http://www.commsystems.com> or by writing to our Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343, or by sending an e-mail to our Corporate Secretary at DavidM@commsysinc.com.

The Board, Board Committees and Meetings

Meeting Attendance. Our Board of Directors meets regularly during the year to review matters affecting our Company and to act on matters requiring Board approval. Each of our directors is expected to make a reasonable effort to attend all meetings of the Board, applicable committee meetings and our annual meeting of shareholders. During 2007, the Board of Directors met five times. Each of our directors attended at least 75% of the meetings of the Board and committees on which he or she served. All of our directors attended our 2007 Annual Meeting of Shareholders, except Paul J. Anderson.

Board Committees. Our Board of Directors has established the following committees: Audit, Compensation, Governance and Nominating, Finance, Public Responsibility and Executive. Except as noted below, only members of the Board serve on these committees. Following is information about each committee.

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Audit Committee. The Audit Committee is responsible for the engagement, retention and replacement of the independent auditors, approval of transactions between the Company and a director or executive officer unrelated to service as a director or officer, approval of non-audit services provided by the Company's independent auditor, oversight of the Company's internal controls and the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters. The Deloitte Entities, the Company's independent public accountants, report directly to the Audit Committee. The Audit Committee operates under a formal charter that was most recently amended in 2004. Each of the members of the Audit Committee is independent as defined by SEC and AMEX listing standards. The current members of the Audit Committee are Edwin C. Freeman, Chair, Paul J. Anderson and Luella G. Goldberg and the Board of Directors has determined that Edwin C. Freeman qualifies as the Committee's financial expert. The Audit Committee met five times during 2007. The report of the Audit Committee is found on page 14.

Compensation Committee. The Compensation Committee is responsible for the overall compensation strategy and policies of the Company; reviews and approves the compensation and other terms of employment of the Company's chief executive officer and other executive officers, subject to final Board approval; oversees the establishment of performance goals and objectives for the Company's executive officers; administers the Company's incentive compensation plans; considers the adoption of other or additional compensation plans; and, provides oversight and final determinations with respect to the Company's 401(k) plan, employee stock ownership plan and other similar employee benefit plans. The Committee operates under a charter approved by the Board of Directors. The current members of the Compensation Committee are Gerald D. Pint, Chair, Edwin C. Freeman and Luella G. Goldberg. The Committee met twice in 2007. Further information regarding the Compensation Committee is provided at page 8 below.

2

Table of Contents

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for reviewing the size and composition of the Board, identifying individuals qualified to become Board members, recommending to the Board of Directors nominees to be elected at the annual meeting of shareholders, reviewing the size and composition of the Board committees, facilitating Board self assessment and reviewing and advising regarding strategic direction and strategic management. The Committee operates under a charter approved by the Board. The current members of the Governance and Nominating Committee are Luella G. Goldberg, Gerald D. Pint and Paul J. Anderson. Each of the members of the Governance and Nominating Committee is independent under AMEX listing standards. The Committee met two times during 2007.

Finance Committee. The Finance Committee is responsible for reviewing and approving the Company's annual business plan and related operating budgets. The Finance Committee interfaces with the Compensation Committee with respect to implementing compensation policies that support the Company's annual business plan. The Finance Committee is also responsible for overseeing and making recommendations about the financial operating policies and procedures relating to matters such as investment of excess cash, management of accounts receivable and inventory, purchases of capital equipment, travel, and employee benefits and perquisites. The current members of the Committee are Randall D. Sampson, Chair, Edwin C. Freeman, Curtis A. Sampson, Jeffrey K. Berg and Paul N. Hanson, the Company's Chief Financial Officer from 1982-2007. The Finance Committee met once in 2007.

Public Responsibility Committee. The Public Responsibility Committee is responsible for guiding and directing charitable giving by the Company and its subsidiaries. In addition, as appropriate, the committee is responsible to review and provide recommendation regarding CSI policies related to corporate social responsibility and public policy issues of significance to CSI, or that may effect CSI's business operation, performance, or corporate reputation. The current members of the Public Responsibility Committee are Jeffrey K. Berg, Luella G. Goldberg, Randall D. Sampson and Karen Nesburg Blicek, the Company's Human Resource Director. The Public Responsibility Committee met once in 2007.

Executive Committee. Pursuant to Company's bylaws, the Executive Committee has the authority to act on behalf of the Board of Directors and the Company with respect to matters requiring Board action that arise between meetings of the Board or otherwise as it has been authorized to act by the Board of Directors. The current members of the Committee are Edwin C. Freeman, Gerald D. Pint and Curtis A. Sampson. While members of the Executive Committee were consulted informally during the year, this committee did not formally meet in 2007.

Director Independence

The Board of Directors has adopted director independence guidelines that conform to the definitions of independence set forth in Section 301 of the Sarbanes-Oxley Act of 2002, Rule 10A-3 under the Securities Exchange Act of 1934 and listing standards of the American Stock Exchange

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(AMEX). In accordance with these guidelines, the Board of Directors has reviewed and considered facts and circumstances relevant to the independence of each of our directors and director nominees and has determined that each of the following directors qualifies as independent under AMEX listing standards: Paul J. Anderson, Edwin C. Freeman, Luella G. Goldberg and Gerald D. Pint. Directors Curtis A. Sampson, Randall D. Sampson and Jeffrey K. Berg are not independent under AMEX listing standards. Curtis A. Sampson does not qualify as independent because he is Chairman of the Company and also served as the Company's Chief Executive Officer until June 2007; Jeffrey K. Berg does not qualify as independent because he is the Chief Executive Officer of the Company; and, Randall D. Sampson does not qualify as independent because he is an immediate family member (the son) of Curtis A. Sampson, the Chairman of the Board.

3

Table of Contents

Selecting Nominees for Election to the Board

The Governance and Nominating Committee is the standing committee responsible for recommending to the full Board of Directors the nominees for election as directors at our annual shareholder meetings. In making its recommendations, the Committee reviews the composition of the full Board to determine the qualifications and areas of expertise needed to further enhance the composition of the Board, and works with management in attracting candidates with those qualifications. In making its recommendations, the Committee considers, among other things, relevant experience, integrity, ability to make independent analytical inquiries, understanding of the Company's business, relationships and associations related to the Company's business, personal health and a willingness to devote adequate time and effort to Board responsibilities, all in the context of an assessment of the perceived needs of the Company.

Although we have never received a submission in the past, the Governance and Nominating Committee will consider qualified candidates for director that are submitted by our shareholders. Shareholders can submit qualified candidates, together with appropriate biographical information, to the Governance and Nominating Committee at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Submissions will be forwarded to the Governance and Nominating Committee for review and consideration. Any stockholder desiring to submit a director candidate for consideration at our 2009 Annual Meeting of shareholders must ensure that the submission is received by the Company no later than December 31, 2008 in order to provide adequate time for the Governance and Nominating Committee to properly consider the candidate. A shareholder wishing to formally nominate a director candidate should follow the procedure set forth below under the caption "Other Information - Shareholder Proposals for 2009 Annual Meeting --Shareholder Nominations."

Director Compensation

Compensation information paid to non-employee directors of the Company is set forth under the caption "Director Compensation" on page 13 herein.

Code of Ethics and Business Conduct

We have a Code of Ethics and Business Conduct (the "Code") applicable to all of the Company's officers, directors, employees and consultants that establishes guidelines for professional and ethical conduct in the workplace. The Code also contains a special set of guidelines applicable to the Company's senior financial officers, including the chief executive officer, principal financial officer, principal accounting officer, and others involved in the preparation of the Company's financial reports, that are intended to promote the ethical handling of conflicts of interest, full and fair disclosure in periodic reports filed by the Company and compliance with laws, rules and regulations concerning such periodic reporting. A copy of the Code is available on the "Investor Resources" page of our website at <http://www.commsystems.com/> under "Corporate Governance" and is also available, without charge, by writing to the Company's Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

Contacting the Board of Directors

Any shareholder who desires to contact our Board of Directors may do so by writing to the Board of Directors, generally, or to an individual director at Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Communications received electronically or in writing are distributed to the full Board of Directors, a committee or an individual director, as appropriate, depending on the facts and circumstances described in the communication received. By way of example, a complaint regarding accounting, internal accounting controls or auditing matters will be forwarded to the Chair of the Audit Committee for review. Complaints and other communications may be submitted on a confidential or anonymous basis.

Table of Contents**ELECTION OF DIRECTORS**

The size and structure of the Board of Directors presently consists of seven director positions, divided into three classes, with each class of directors serving staggered three-year terms. Upon the recommendation of the Governance and Nominating Committee, the Board of Directors has nominated and recommends that the Company's shareholders elect, Edwin C. Freeman, Luella G. Goldberg and Randall D. Sampson, each of whom currently serves as a director, for three-year terms expiring in 2011. The Board of Directors believes that each nominee will be able to serve as a director; however, should a nominee be unable to serve, the persons named in the proxies have advised that they will vote for the election of such substitute nominee as the Governance and Nominating Committee may recommend and the Board of Directors may propose.

Information regarding the nominees named above and other directors filling unexpired terms is set forth in the following table and footnotes that appear on the following page, including information regarding their principal occupations currently and for the preceding five years. Ownership of Common Stock of the Company is given as of March 28, 2008. To the best of the Company's knowledge, unless otherwise indicated below, the persons indicated possess sole voting and investment power with respect to their stock ownership.

Name and Age	Principal Occupation and other Directorships	Director Since	Year Current Term Expires	Amount of Common Stock Ownership	Percent of Outstanding Common Stock
<i>Nominees proposed for Election for Terms Expiring in 2011</i>					
Edwin C. Freeman (52)	Vice President and General Manager, Bro-Tex, Inc. (paper and cloth wiper products, and fiber product recycler) since March 1992.	1988	2008	40,367 ⁽¹⁾	*
Luella G. Goldberg (71)	Trustee, University of Minnesota Foundation since 1975; Chair, from 1996 to 1998. Trustee Emerita of Wellesley College since 1996. Member, Carlson School Board of Overseers, University of Minnesota, since 1979. Director, TCF Financial Corporation, ING Group and Hormel Foods Corporation.	1997	2008	33,000 ⁽²⁾	*
Randall D. Sampson (50)	Chief Executive Officer of Canterbury Park Holding Corporation (thoroughbred racing and card club wagering).	1999	2008	89,824 ⁽³⁾	1.04%

Directors Serving Unexpired Terms

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Paul J. Anderson (76)	Private Investor.	1975	2009	163,118 ⁽⁴⁾	1.88%
Jeffrey K. Berg (65)	President and Chief Executive Officer of the Company since June 2007. President and Chief Operating Officer from March 2002 to June 2007; and, served the Company in various senior management positions for more than twelve years prior thereto.	2007	2009	552,483 ⁽⁵⁾	6.39%
Gerald D. Pint (72)	Telecommunications consultant since September 1993. Prior thereto, Group Vice President, Telecom Systems Group, 3-M Company, 1989-1993. Director of Inventronics Ltd. (telecommunications equipment company).	1997	2010	30,000 ⁽²⁾	*
Curtis A. Sampson (74)	Chairman of the Board and Chief Executive Officer of the Company; Chairman of the Board, Canterbury Park Holding Corporation (thoroughbred racing and card club wagering).	1969	2010	1,655,960 ⁽⁶⁾	19.13%

* Indicates less than one percent ownership.

Footnotes for this table are on page 6

5

Table of Contents

- (1) Includes 9,267 shares owned by Mr. Freeman directly, 2,100 shares owned by his spouse, as to which beneficial ownership is disclaimed, and 29,000 shares that may be purchased pursuant to currently exercisable stock options.
- (2) Includes 29,000 shares that may be purchased pursuant to currently exercisable stock options.
- (3) Includes 37,524 shares owned by Mr. Randall Sampson directly, 28,300 shares owned by his spouse and children, and 24,000 shares that may be purchased pursuant to currently exercisable stock options. Mr. Randall D. Sampson is the son of Mr. Curtis A. Sampson.
- (4) Includes 104,309 shares owned by Mr. Anderson directly, 29,809 shares owned by his spouse and 29,000 shares that may be purchased pursuant to currently exercisable stock options.

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- (5) Includes 17,975 shares owned by Mr. Berg directly, 540,469 shares owned by the CSI Employee Stock Ownership Plan and Trust (CSI ESOP), of which Mr. Berg is a Trustee, and 36,000 shares which may be purchased pursuant to currently exercisable stock options. Mr. Berg disclaims any beneficial ownership of the shares owned by the CSI ESOP in excess of the 18,451 allocated to his CSI ESOP account as of December 31, 2007.
- (6) Includes 1,100,517 shares owned by Mr. Curtis A. Sampson directly, 16,323 shares owned by his spouse, as to which beneficial ownership is disclaimed, 624 shares held by the Sampson Family Foundation, a charitable foundation of which Mr. Sampson is the sole trustee, 38,000 shares which may be purchased within 60 days from the date hereof pursuant to outstanding stock options, and 540,469 shares owned by the Communications Systems, Inc. Employee Stock Ownership Plan (CSI ESOP) of which Mr. Sampson is a Trustee. Mr. Sampson disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 40,797 shares allocated to his CSI ESOP account as of December 31, 2007. Mr. Curtis A. Sampson is the father of Mr. Randall D. Sampson.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE FOR EACH OF THE NOMINEES NAMED ABOVE

6

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Summary Ownership Table

The following table sets forth certain information with respect to the Company's Common Stock beneficially owned by: (i) each person known by the Company to own of record or beneficially five percent (5%) or more of the Company's Common Stock, (ii) each Named Executive Officer listed under Executive Compensation and Other Information, and (iii) all officers and directors of the Company as a group, in each case based upon information available as of March 28, 2008 (unless otherwise noted). Stock ownership information for each of the Company's directors is presented under Proposal One: Election of Directors.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Curtis A. Sampson	1,655,960 ⁽¹⁾	19.13%
John C. Ortman 1506 17th Street	543,350	6.31%

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Lawrenceville, IL 62439

Putnam, LLC One Post Office Square Boston, MA 02109	497,856 ⁽²⁾	5.78%
Paul N. Hanson 213 South Main Street Hector, MN 55342	599,576 ⁽³⁾	6.94%
Jeffrey K. Berg	552,483 ⁽⁴⁾	6.39%
Dimensional Fund Advisors LP	441,11	