

COMMUNICATIONS SYSTEMS INC  
Form 10-Q  
November 09, 2018

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, 2018

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

(State or other jurisdiction of  
incorporation or organization)

(Federal Employer  
Identification No.)

10900 Red Circle Drive, Minnetonka, MN 55343

(Address of principal executive offices) (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, a smaller reporting company, or emerging growth company (as defined by Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Smaller Reporting Company Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

Name of Exchange

<b>Class</b>	<b>On Which Registered</b>	<b>Outstanding at November 1, 2018</b>
Common Stock, par value \$.05 per share	NASDAQ	9,158,485

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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

	<b>September 30 2018</b>	<b>December 31 2017</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$8,632,794	\$12,453,663
Investments	2,618,322	5,540,744
Trade accounts receivable, less allowance for doubtful accounts of \$99,000 and \$106,000, respectively	11,448,146	12,183,217
Inventories	16,130,318	13,984,428
Prepaid income taxes	464,459	493,834
Other current assets	1,363,851	810,532
<b>TOTAL CURRENT ASSETS</b>	<b>40,657,890</b>	<b>45,466,418</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>11,552,470</b>	<b>12,624,730</b>
<b>OTHER ASSETS:</b>		
Deferred income taxes	38,136	38,136
Other assets, net	7,784	16,977
<b>TOTAL OTHER ASSETS</b>	<b>45,920</b>	<b>55,113</b>
<b>TOTAL ASSETS</b>	<b>\$52,256,280</b>	<b>\$58,146,261</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$3,590,288	\$4,554,683
Accrued compensation and benefits	2,706,719	2,422,083
Other accrued liabilities	3,016,375	1,586,473
Dividends payable	368,783	397,151
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,682,165</b>	<b>8,960,390</b>
<b>LONG TERM LIABILITIES:</b>		
Long-term compensation plans	—	11,079
Uncertain tax positions	—	4,065
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>—</b>	<b>15,144</b>
<b>COMMITMENTS AND CONTINGENCIES (Footnote 8)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
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; 9,149,877 and 8,973,708 shares issued and outstanding, respectively	457,494	448,685
Additional paid-in capital	42,622,449	42,006,750
Retained earnings	193,408	7,328,671

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Accumulated other comprehensive loss	(699,236 )	(613,379 )
TOTAL STOCKHOLDERS' EQUITY	42,574,115	49,170,727
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$52,256,280	\$58,146,261

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

## COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30 2018	2017	September 30 2018	2017
Sales	\$15,291,993	\$20,412,439	\$47,103,837	\$63,280,980
Cost of sales	10,051,419	17,108,532	32,699,559	48,001,368
Gross profit	5,240,574	3,303,907	14,404,278	15,279,612
Operating expenses:				
Selling, general and administrative expenses	6,842,348	7,161,323	20,702,476	21,516,625
Impairment loss	—	—	—	1,617,389
Restructuring expense	—	796,231	—	2,325,861
Total operating expenses	6,842,348	7,957,554	20,702,476	25,459,875
Operating loss	(1,601,774 )	(4,653,647 )	(6,298,198 )	(10,180,263 )
Other income (expenses):				
Investment and other income	70,638	38,869	263,890	78,888
(Loss) Gain on sale of assets	(6,147 )	26,222	10,904	(32,024 )
Interest and other expense	(9,586 )	(42,799 )	(28,774 )	(61,839 )
Other income (expense), net	54,905	22,292	246,020	(14,975 )
Loss from operations before income taxes	(1,546,869 )	(4,631,355 )	(6,052,178 )	(10,195,238 )
Income tax benefit	(2,137 )	(109,340 )	(6,092 )	(67,014 )
Net loss	(1,544,732 )	(4,522,015 )	(6,046,086 )	(10,128,224 )
Other comprehensive income (loss), net of tax:				
Unrealized loss (gain) on available-for-sale securities	2,403	(240 )	405	(3,187 )
Foreign currency translation adjustment	(15,357 )	31,508	(86,262 )	63,724
Total other comprehensive (loss) income	(12,954 )	31,268	(85,857 )	60,537
Comprehensive loss	\$(1,557,686 )	\$(4,490,747 )	\$(6,131,943 )	\$(10,067,687 )
Basic net loss per share:	\$(0.17 )	\$(0.50 )	\$(0.66 )	\$(1.13 )
Diluted net loss per share:	\$(0.17 )	\$(0.50 )	\$(0.66 )	\$(1.13 )
Weighted Average Basic Shares Outstanding	9,146,184	8,960,606	9,093,609	8,934,235
Weighted Average Dilutive Shares Outstanding	9,146,184	8,960,606	9,093,609	8,934,235
Dividends declared per share	\$0.04	\$0.04	\$0.12	\$0.12

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

## COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited)

## For the Nine Months Ended September 30, 2018

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Loss	
BALANCE AT DECEMBER 31, 2017	8,973,708	\$448,685	\$42,006,750	\$7,328,671	\$ (613,379 )	\$49,170,727
Net loss	—	—	—	(6,046,086)	—	(6,046,086 )
Issuance of common stock under Employee Stock Purchase Plan	21,053	1,053	76,964	—	—	78,017
Issuance of common stock to Employee Stock Ownership Plan	119,632	5,982	419,908	—	—	425,890
Issuance of common stock under Executive Stock Plan	43,501	2,175	—	—	—	2,175
Share based compensation	—	—	156,214	—	—	156,214
Other share retirements	(8,017 )	(401 )	(37,387 )	9,325	—	(28,463 )
Shareholder dividends (\$0.12 per share)	—	—	—	(1,098,502)	—	(1,098,502 )
Other comprehensive loss	—	—	—	—	(85,857 )	(85,857 )
BALANCE AT SEPTEMBER 30, 2018	9,149,877	\$457,494	\$42,622,449	\$193,408	\$ (699,236 )	\$42,574,115

## For the Three Months Ended September 30, 2018

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Loss	
BALANCE AT JUNE 30, 2018	9,142,649	\$457,132	\$42,548,812	\$2,104,414	\$ (686,282 )	\$44,424,076
Net loss	—	—	—	(1,544,732)	—	(1,544,732 )
Issuance of common stock under Employee Stock Purchase Plan	7,228	362	27,206	—	—	27,568



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Share based compensation	—	—	46,431	—	—	46,431
Shareholder dividends (\$0.04 per share)	—	—	—	(366,274 )	—	(366,274 )
Other comprehensive loss	—	—	—	—	(12,954 )	(12,954 )
BALANCE AT SEPTEMBER 30, 2018	9,149,877	\$457,494	\$42,622,449	\$193,408	\$ (699,236 )	\$42,574,115

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

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

	<b>Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(6,046,086)	\$(10,128,224)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,695,451	2,489,661
Share based compensation	156,214	327,261
Deferred taxes	—	(52,998 )
Impairment loss	—	1,617,389
(Gain) loss on sale of assets	(10,904 )	537,470
Changes in assets and liabilities:		
Trade accounts receivable	704,698	765,055
Inventories	(2,181,679)	7,232,732
Prepaid income taxes	29,375	789,209
Other assets, net	(559,003 )	358,160
Accounts payable	(893,578 )	(1,648,259 )
Accrued compensation and benefits	702,267	