

COMMUNICATIONS SYSTEMS INC
Form 10-Q
June 21, 2007

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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, 2007**
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.)

213 South Main Street, Hector, MN
(Address of principal executive offices)

55342
(Zip Code)

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(320) 848-6231

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 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

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 31, 2007
Common Stock, par value \$.05 per share	American Stock Exchange	8,862,517

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2007	December 31 2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,865,595	\$28,751,172
Trade accounts receivable, less allowance for doubtful accounts of \$589,000 and \$585,000, respectively	18,776,071	19,678,301
Related party receivables	107,433	84,115
Inventories	26,397,609	25,331,621
Prepaid income taxes	297,661	320,682
Other current assets	1,036,173	753,704
Deferred income taxes	3,983,127	3,490,682
TOTAL CURRENT ASSETS	79,463,669	78,410,277
PROPERTY, PLANT AND EQUIPMENT, net	8,231,792	8,579,932
OTHER ASSETS:		
Goodwill	5,264,095	5,264,095
Deferred income taxes	392,174	330,042
Other assets	135,643	138,493
TOTAL OTHER ASSETS	5,791,912	5,732,630
TOTAL ASSETS	\$ 93,487,373	\$92,722,839

LIABILITIES AND STOCKHOLDERS' EQUITY

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CURRENT LIABILITIES:		
Accounts payable	\$ 2,665,850	\$3,192,671
Accrued compensation and benefits	2,911,477	3,204,285
Other accrued liabilities	2,251,930	2,184,327
Dividends payable	884,291	872,668
TOTAL CURRENT LIABILITIES	8,713,548	9,453,951
LONG TERM LIABILITIES:		
Long-term compensation plans	387,125	310,620
Income taxes payable	337,332	
Pension liabilities	415,354	413,180
TOTAL LONG-TERM LIABILITIES	1,139,811	723,800
COMMITMENTS AND CONTINGENCIES		
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; 8,843,904 and 8,732,429 shares issued and outstanding, respectively		
	442,195	436,621
Additional paid-in capital	34,478,270	33,488,345
Retained earnings	48,282,815	48,203,511
Accumulated other comprehensive income	430,734	416,611
TOTAL STOCKHOLDERS EQUITY	83,634,014	82,545,088
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 93,487,373	\$92,722,839

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 INCOME

	Three Months Ended March 31	
	2007	2006
Sales	\$ 26,445,168	\$ 28,376,888
Costs and expenses:		
Cost of sales	17,601,364	18,894,205
Selling, general and administrative expenses	8,228,091	8,654,733
Total costs and expenses	25,829,455	27,548,938
Operating income	615,713	827,950
Other income and (expenses):		
Investment and other income	212,171	174,131
Interest and other expense	(6,591)	(8,498)
Other income, net	205,580	165,633

