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

FORM 10-K

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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 and zip code)

Registrant's telephone number, including area code: (952) 996-1674

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.05 par value Preferred Stock Purchase Rights	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES☐ NO ☒

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 check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.
Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $119,701,000 based upon the closing sale price of the Company's common stock on the NASDAQ on June 30, 2011.

As of March 1, 2012 there were outstanding 8,470,015 shares of the Registrant's common stock.

Documents Incorporated by Reference: Portions of the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 2012 are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

Communications Systems, Inc. (herein collectively referred to as “CSI,” “our,” “we” or the “Company”) is a Minnesota corporation organized in 1969 that operates directly and through its subsidiaries located in the United States (U.S.), Costa Rica, the United Kingdom (U.K.) and China. CSI is principally engaged through its Suttle and Austin Taylor business units 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 and sale of media and rate conversion products for telecommunications networks. Through its JDL Technologies business unit, CSI also provides IT solutions including network design, computer infrastructure installations, IT service management, change management, network security, and network operation services.

The Company maintains a website at www.commsystems.com. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our periodic reports on Form 8-K (and any amendments to these reports) are available free of charge by linking from our website to the Securities and Exchange Commission website.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company classifies its businesses into four segments: *Suttle*, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; *Transition Networks,* which designs and markets media conversion products, Ethernet switches, and other connectivity and data transmission products; *Austin Taylor,* which manufactures British standard line jacks, patch panels, metal boxes, distribution and central office frames; and *JDL Technologies, (JDL*), which provides IT solutions. Non-allocated general and administrative expenses are separately accounted for as “Other” in the Company’s segment reporting. There are no material intersegment revenues. Further information regarding the various segments including customer and industry concentration, is set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 11 of the Notes to Consolidated Financial Statements under Item 8, herein.

(c) NARRATIVE DESCRIPTION OF BUSINESS

(1) <u>Information Regarding Business Segments</u>

(i) <u>Suttle</u>

Suttle manufactures and markets copper and fiber connectivity systems, enclosure systems, XDSL filters and splitters, and active technologies for voice, data and video communications under the Suttle brand name in the United States and internationally. Suttle also manufactures and markets a line of residential structured wiring products under the SOHO (Small Office Home Office) Access ™ brand name. Approximately 55% of Suttle’s products are manufactured at its plants in Hector, Minnesota (Suttle Apparatus Minnesota Division) and San Jose, Costa Rica (Suttle Costa Rica, S.A.). The other 45% are purchased from offshore contract manufacturers. Segment sales were $36,637,000 (25% of consolidated revenues) in 2011 and $36,562,000 (30% of consolidated revenues) in 2010.

<u>Products</u>

Suttle offers a broad range of critical components for premise and outside plant networking. The company’s customer-oriented approach provides right-sized solutions that leverage existing infrastructure and protect investments as markets and technologies grow and change. With over 100 years of knowledge and experience, Suttle is a reliable partner, delivering innovative, flexible, easy-to-use solutions, lower cost of ownership, and solid customer support.

Connectivity:

In the face of changing technology, the right equipment can accommodate upgrades in technology, reducing future as well as current costs. Suttle's passive premise equipment for single family units (SFU) and multi-dwelling units (MDU) dwellings presents a variety of opportunities. In Brownfield applications, Suttle offers innovative new fiber and copper connectivity products that interact easily with existing equipment, reducing the cost of installation. In Greenfield applications, Suttle offers tool-less copper connectivity products that simplify installation and reduce labor costs. These technologies can even allow for customer installation, eliminating the need for a truck roll entirely.

As a leading producer of passive components, Suttle works to understand real-world applications and market needs. Suttle stresses the importance of labor costs and the consequences of premature failure or obsolescence. The company works with major service providers, adapting its connectivity portfolio to changing markets, technologies, and infrastructure.

Suttle is continuing to expand its U.S. manufacturing to maximize flexibility and minimize lead times. It is committed to maintaining both internal and external quality standards as well as industry product specifications. Suttle was one of the first companies to pass the new Telcordia GR-3167 standard for VDSL2 along with the TR-127 for ring trip mitigation allowing our splitters to leverage existing infrastructure for next generation IPTV services. Our focus on quality, product performance and customer support allows us to continue to develop new innovative product solutions.

Home Distribution:

Wiring a home for service can be both costly and time-consuming. Suttle provides complete, cost-effective connectivity solutions that utilize a home's existing wiring. These home distribution products reduce installation time and labor costs. In addition to reducing a service provider's up-front costs, the high throughput of Suttle's solutions helps eliminate potential bottlenecks to "future-proof" the installation.

Suttle is augmenting over 100 years of home connectivity experience, adding expertise in advanced active home distribution to provide the systems and components that service providers need to compete in today's quickly growing market. These technologies allow service providers to maximize existing infrastructure without sacrificing quality while reducing total cost of infrastructure ownership.

Outside Plant Configurations:

Outside plant can be the most challenging aspect of telephone or cable infrastructure. It must deal with environmental challenges yet be easily accessible. The overall product design can extend the life of the existing network, enhance data speeds, and prevent loss. It can affect all aspects of service implementation, ease of maintenance, and overall cost of labor.

Suttle understands these challenges and knows the importance of total cost of ownership, reliability, and quality of service. Its systems are designed for flexibility in real world applications for both copper and fiber networks.

Markets and Marketing

Suttle markets its connectivity, outside plant configuration, and home distribution products to telecommunications companies globally. Suttle has a long history of selling to some of the largest global providers and it does so by understanding the customer's needs and providing innovative solutions coupled with strong customer support. Additionally, Suttle markets its products to service providers, residential builders, and low voltage installers through distributors and the Company's sales staff.

Suttle reaches its targeted customers through a variety of marketing mediums including trade shows, associations, advertising, social media and the Suttle website, www.suttleonline.com.

Customers

Suttle's customers include the major communication companies globally, including both telephone and cable service provider companies. The Company's major telephone company customers include Verizon, ATT, and CenturyLink (formerly Qwest). Major telephone companies are served directly by Suttle's sales staff and through a select group of distributors. As a group, sales (including DSL) to the major telephone companies, both directly and through distribution, represented 74% of Suttle's sales in 2011 and 70% in 2010.

Other customers include smaller telephone companies, electrical/low voltage contractors, home builders, and a nationwide network of distributors. These customers are served primarily through distributors but are also served directly by Suttle's sales staff. Sales to cable customers and original equipment manufacturers (OEMs) are made through the nationwide network of distributors and through the Suttle sales staff. Sales to OEMs and other distributors were 12% of Suttle's sales in 2011 and 14% in 2010. Sales to international customers and other customers represented 14% of Suttle's sales in 2011 and 16% in 2010.

Competition

Suttle encounters strong competition in all its product lines and competes primarily on the basis of the broad lines of products offered, product performance, quality, price, delivery, and customer support. In addition, distributors of Suttle's products also market products for one or more of these competitors.

Order Book

Suttle manufactures its products on the basis of estimated customer requirements. Outstanding customer orders at March 1, 2012 were approximately $3,250,000 compared to approximately $3,724,000 at March 1, 2011. New orders are generally filled within 60 days. Suttle does not believe its order book is a significant indicator of longer term future results.

Manufacturing and Sources of Supply

Suttle's products are manufactured using plastic or metal parts, wire sub-assemblies, fasteners, brackets, electronic circuit boards and other components, most of which are fabricated by Suttle. There are multiple sources of supply for the materials and parts required and the Company is not dependent upon any single supplier, except that Suttle's corrosion-resistant products use a moisture-resistant gel-filled fig available only from TE Connectivity. Suttle has not generally experienced significant problems in obtaining its required supplies, although from time to time it experiences spot shortages and additional order lead times are required from its offshore suppliers.

Research and Development: Patents

Suttle continually monitors industry requirements and creates new products to improve its existing product line. Although Suttle has historically not relied significantly on patents to protect its competitive position, as a result of duplication of its designs by foreign apparatus manufacturers, Suttle has begun to apply for design patents on a number of its new products.

The Company's "Suttle" brand name is important to its business. Suttle regularly supports this name by trade advertising and believes it is well known in the marketplace.

(ii) Transition Networks

Transition Networks, Inc. ("Transition" or "Transition Networks") is based in Minnetonka, Minnesota and also maintains operations in China and the U.K. Transition designs, assembles and markets network interface devices (NIDs), media converters, network interface cards (NICs), Ethernet switches, Small Form factor Pluggable modules (SFP), and other connectivity products under the Transition Networks and MILAN brand names. Transition sells its product through distributors, resellers, integrators, and OEMs. These NIDs, media converter and Ethernet Switch products permit voice and data networks to move information between copper-wired equipment and fiber-optic cable. Sales by Transition Networks were $91,450,000 (64% of consolidated sales) in 2011 compared to $67,782,000 (56% of consolidated sales) in 2010. International sales accounted for 15% of Transition's sales, or $14,002,000 in 2011, compared to $11,358,000, or 17% of Transition's sales in 2010.

Products

Transition Networks designs, assembles and sells media converter devices, NIDs, Ethernet switches and other connectivity products that make it possible to transmit telecommunications signals between systems using different types of media (for example, between copper and fiber optic networks). These products enable customers to integrate fiber optics into their existing network infrastructure as their networks grow, and extend data services to customers or remote locations. Protocols supported include Gigabit Ethernet, Fast Ethernet, Ethernet, T1/E1, DS3, RS232, RS485, OC3, OC12, and more. The Company uses proprietary Application Specific Integrated Circuits (ASIC) for development of some products, as well as ASICs from integrated circuit manufacturers such as Marvell® and Broadcomm® for the development of new products. Transition Networks develops product hardware and software internally, and expenses the related costs as they are incurred. In connection with the sale of its hardware products, Transition Networks provides its customers with free operating software. Transition Networks focuses its product development on hardware, with software developed to support hardware sales. The Company has been developing and marketing Ethernet-based networking products for approximately 23 years. Transition Networks continues to develop products that address the enterprise, service provider, industrial, and security markets and, in addition, targets the specific vertical markets of government and education.

Manufacturing and Sources of Supply

Transition Networks outsources most of its manufacturing. In 2011, approximately 67% of its products were manufactured offshore, principally in Asia. Offshore sources of supply are subject to certain risks, including political risk. The balance of its products are manufactured in the United States. The Company has alternate sources of supply for its products and to date has not had problems obtaining necessary product.

Markets and Marketing

Transition Networks' products are used in a broad array of markets, including enterprise networks, service providers' networks, security and industrial environments such as in manufacturing processes. Transition Networks has a broad customer base and its products are used in a variety of applications.

The media conversion product line addresses and is used in a variety of applications. The ION and Point System™ chassis-based modular systems are used primarily in telecommunications closets for high-density applications and when multiple protocols need to be supported. Stand-alone media converters are used typically at a workstation or for lower density applications. The line of Ethernet switches is used in both the central closet and at the end user station.

Marketing primarily consists of direct marketing using a sales force, tradeshows, trade magazine advertising, on-line advertising, web site, social media and public relations activities. Transition Networks also provides and participates in advertising and cooperative marketing campaigns with distribution partners.

The Company's "Transition Networks" and "MILAN" brand names are important to its business. The Company regularly supports these names by trade advertising and believes them to be well known in the marketplace.

Research and Development

Transition Networks continues to develop products that address the enterprise, service provider, security and industrial markets. This includes developing converters for emerging protocols and existing protocols in new markets, as well as new industry standards. Some of these products include remote management devices built on the IEEE® 802.3AH and 802.3AG standards, Metro Ethernet Forum (MEF)® standards and Power Over Ethernet based on the IEEE® 802.3AF standard. Some design efforts are paced by the development of critical components such as integrated circuits and optical transceivers.

Research and development consists primarily of testing, equipment and supplies associated with enhancing existing products and developing new products. Research and development costs are expensed when incurred and were $1,937,000 in 2011 compared to $1,966,000 in 2010.

Transition Networks' research and development operations are conducted in the United States and China. Transition opened an office in China (Transition Networks China) in the third quarter of 2007. The China operation focuses primarily on engineering, including hardware and software development as well as testing. Additional China operations include marketing, purchasing, and sales support.

Competition

Transition Networks faces strong competition across its entire product line. A large number of competitors exist for the highest volume products in the Fast Ethernet and Gigabit Ethernet families as well as the Network Interface Devices (NIDs). Low cost competitors from China and Taiwan are strongest in Asian, Europe, Middle East, and African (EMEA) and South American markets, but have had limited success in the North American market for the media converter products. Transition Networks also faces new competitors as it enters new markets for industrial products, security market, and higher performance devices for the service provider market.

Order Book

Outstanding customer orders for Transition Networks products were approximately $4,418,000 at March 1, 2012 and $6,193,000 at March 1, 2011. Transition Networks orders are fulfilled on a relatively short-term basis and therefore the Company does not consider the order book as a significant indicator of longer term future results.

(iii) JDL Technologies, Inc.

JDL Technologies, Inc. ("JDL"), located in Fort Lauderdale, Florida, provides information technology (IT) solutions focused on network design and integration IT service management, network security, desktop virtualization, and managed network operation center services. JDL's 2011 sales were $12,401,000 (9% of consolidated sales) compared to 2010 sales of $12,712,000 (11% of consolidated sales). Project revenue totaled $11,310,000 in 2011 or 91% of JDL sales compared to $11,612,000 in 2010 or 91% of JDL sales. Managed services revenues were $1,091,000 and $1,100,000 in 2011 and 2010, respectively.

Products, Services and Solutions

With over 15 years of success in Florida, JDL's portfolio of technology solutions includes virtualization, managed services, wired and wireless network design and implementation services, and converged infrastructure configuration and deployment. With a team of highly skilled engineers, JDL develops "best of class" IT solutions that address the true pain points of its clients. JDL works with the newest and most advanced IT to implement effective business solutions specifically catered to each business' needs.

JDL's expertise is in developing, deploying and maintaining solutions that enable and enhance IT landscapes specific to these core competencies:

Virtualization:
By leveraging industry knowledge and strategic partnerships such as Citrix, VMware and Microsoft, JDL's team of virtualization engineers assess, design, deploy, and manage a customized virtualization plan for clients ensuring access to any workload, anytime, anywhere, and on any device. An ideal virtualization environment designed by JDL can be comprised of just one, all, or a combination of server, desktop and application virtualization. As a result of JDL's tailored solutions, businesses benefit from reduced costs with increased performance, heightened workplace flexibility and agility, magnified adaptation to business change, and an upgraded level of security and disaster recovery protection.

Managed Services:
JDL's suite of managed services includes patch and asset management, automation, availability assurance, IT help desk, event alerting, remote and on-site support, endpoint security and desktop migration. JDL's implementation of managed services complements our clients' current IT resources and personnel in businesses of all sizes and across all industries. Having JDL's engineers take on the daily management and availability assurance of a business' infrastructure frees the current IT team to focus on the projects that are critical to the core business.

Network Services:
Having designed, deployed, and managed one of the largest wireless infrastructures in the country, JDL's team can advise businesses on the design and implementation of corporate networks from wired to wireless and beyond. Through partnerships with HP, Cisco Systems, Ruckus, Meru and others, JDL aligns with business needs to optimize its IT landscape.

Converged Infrastructure:
In recognizing that businesses grow and gain competitive advantage through the rapid adoption of IT innovation and responsiveness, JDL has built a converged infrastructure practice. By aligning with each business' needs and helping overcoming IT obstacles, JDL's clients experience accelerated ROI and sustainability, reduced costs by combining infrastructure and enhanced security and disaster recovery.

Markets and Competition

Over the past 15 years, JDL Technologies has provided scalable and effective IT planning, implementation, and support services in K-12 education. Although having educational clients nationwide, its strongest base has been in Central and South Florida, a market that includes a number of other small and large IT value added resellers (VAR) and managed service providers (MSP). In order to differentiate itself from competitors, in 2010, JDL made a strategic decision to market position itself as a high-quality provider of design, implementation and management of information technology solutions enabling its clients to become more competitive in their business operations. This strategy has succeeded by using a vendor diagnostic approach while providing cost reduction, increased revenue generation, ease of use, greater availability and secure IT resources. With its repositioning, JDL also expanded its market focus from K-12 Education to include K-20 Education, Healthcare, Enterprise and Government markets.

Moving forward, JDL plans to continue working with clients to develop unique IT solutions that address specific business and IT requirements. As technology is constantly evolving with new solutions and methodologies, JDL's mission is to keep its growing portfolio of clients and their IT environments current with these changes. It is through JDL's relationship as a trusted advisor that its clients remain up to date with these technology changes and in turn rely on JDL to help determine if and when to adopt new technologies based on business goals. JDL Technologies believes in enabling business through technology.

Order Book

Outstanding customer orders and contracts for JDL products and services were approximately $750,000 at March 1, 2012 and $6,243,000 at March 1, 2011. The outstanding orders and contracts at March 1, 2011, reflected JDL's significant on-going contract with a South Florida school district that was completed in November 2011. Although JDL is pursuing a number of opportunities at the current time, it does not have current orders and contracts that are comparable to those in place in 2011. The Company does not consider current outstanding orders and contracts as a significant indicator of longer term future results.

(iv) Austin Taylor

Austin Taylor Communications, Ltd. is located in Bethesda, North Wales, U.K. Austin Taylor is a provider of telephony and data networking products to telecommunications companies, distributors and installers throughout the U.K., Europe and the Middle East. Austin Taylor sales were $3,288,000 (2% of consolidated revenues) in 2011 and $3,016,000 (3% of consolidated revenues) in 2010.

At its plant in Bethesda, the Company designs and manufactures external metal cabinets and internal metal boxes to industry standards and to customer specifications and procures other products from offshore sources. All manufacturing and supply line products are supported to ISO: 9001:2000 approved standards to guarantee customer quality, consistency and reliability. Approximately 59% and 62% of Austin Taylor sales were to U.K. customers in 2011 and 2010.

Outstanding customer orders for Austin Taylor products were approximately $158,000 at March 1, 2012 compared to $260,000 at March 1, 2011. Because Austin Taylor fills new orders on a relatively short timetable, the Company does not believe its order book is a significant indicator of longer term future results.

(2) Employment Levels

As of March 1, 2012 the Company employed 410 people. Of this number, 189 were employed by Suttle (including 79 in Hector, Minnesota and 110 in Costa Rica), 166 by Transition Networks, Inc. (137 in Minnetonka, MN, 20 in China, and 9 in the U.K.), 25 by JDL Technologies, Inc., 7 by Austin Taylor Communications, Ltd and 23 corporate general and administrative positions.

(3) Executive Officers of Registrant

The executive officers of the Company and their ages at March 1, 2012 are set forth below. See Item 9B of this Form 10-K for additional information on the Company's management.

Name	Age	Position[1]
William G. Schultz	43	President and Chief Executive Officer [2011][2]
David T. McGraw	60	Vice President, Treasurer and Chief Financial Officer [2008][3]
Bruce Blackwood	49	Vice President and General Manager, Suttle [2007][4]
Seweryn Sadura	41	Vice President and General Manager, Transition Networks [2011][5]
Michael J. Skucius	58	Vice President, Information Technology [2010][6]
Karen Nesburg Bleick	47	Vice President, Human Resources [2009][7]
Scott Fluegge	42	Vice President and General Manager, JDL Technologies, Inc [2011][8]
Kristin A. Hlavka	30	Corporate Controller [2011][9]

1 Dates in brackets indicate period during which officers began serving in such capacity. Executive officers serve at the pleasure of the Board of Directors and are elected annually for one-year terms.

2 Mr. Schultz was appointed Chief Executive Officer of the Company in May 2011. From May 2010 to May 2011 he served as the Company's Executive Vice President of Operations. From October 2007 to April 2010 he served as the Vice President and General Manager of Transition Networks, Inc. From May 2000 to September 2007, he served as Transition Networks Vice President of Marketing. Prior to May 2000, he was Distribution Business Manager for AMP Division of Tyco International, Ltd.

3 Mr. McGraw was appointed Chief Financial Officer in January 2008. From September 2002 to December 2007 he served as President of Suttle. From May 2001 to August 2002, he served as Chief Operating Officer of JDL Technologies, Inc. Prior to May 2001, he was Vice President-General Manager of Precision Diversified Industries in Plymouth, MN.

4 Mr. Blackwood was appointed Vice President and General Manager of Suttle in December 2007. From July 2001 to November 2007 he served as Suttle's Vice President of Sales. Prior to July 2001 he was Vice President of Sales for Americable.

5 Mr. Sadura was appointed Vice President and General Manager of Transition Networks in February 2011. From June 2007 to January 2011 he served as the Director of China Operations for Transition Networks. Prior to June 2007, he was a Product Manager at Transition Networks.

6 Mr. Skucius was appointed Vice President of Information Technology in January 2010. From July 2007 to December 2009 he served as Vice President and General Manager of JDL. From 1980 to 2007 he was the Company's Director of Management Information Services.

7 Ms. Nesburg Bleick was appointed Vice President, Human Resources in January 2009. From October 2002 to December 2008, she served as Director of Human Resources.

8 Mr. Fluegge was appointed Vice President and General Manager of JDL Technologies in December 2011. Prior to this, he was the Vice President of Workload Automation at GSS AMERICA / GSS INFOTECH / INFOSPECTRUM CONSULTING.

9 Ms. Hlavka was appointed Corporate Controller in May 2011. From July 2008 to April 2011, she served as the Assistant Corporate Controller. Prior to July 2008, she was an auditor for Deloitte and Touche, LLP.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Financial information about domestic and foreign operations and export sales may be obtained by reference to Note 11 of the "Notes to Consolidated Financial Statements" under Item 8 herein.

ITEM 1A. RISK FACTORS

Forward Looking Statements

Certain statements contained in this Annual Report on Form 10-K are "forward-looking" statements within the meaning of and in reliance on the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for forward-looking statements. Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause our actual performance and future events and actions to differ materially from these forward-looking statements include, but are not limited to, the risk factors discussed below.

Risks Related to Our Business

The primary markets we serve are highly competitive, and our ability to compete requires continual focus on delivering high quality, competitively priced products and the regular introduction of new products that meet evolving customer requirements.

Competition in the markets for voice and data communications products is intense. Our ability to compete with other manufacturers of these products depends primarily on our engineering, manufacturing and marketing skills; the price, quality and reliability of our products; our delivery and service capabilities; and our control of operating expenses. We have experienced, and anticipate continuing to experience, pricing pressures from our customers as well as our competitors. The markets we serve are characterized by rapid technological advances and evolving industry standards. These markets can be significantly affected by new product introductions and marketing activities of industry participants. Certain of our competitors and potential competitors may have greater financial, technological, manufacturing, marketing, and personnel resources than we. Present and future competitors may be able to identify new markets and develop new products that are superior to those developed by us. They may also adapt new technologies faster, devote greater resources to research and development, promote products more aggressively, and price products more competitively than us. We cannot ensure that competition will not intensify or that we will be able to compete effectively in the markets in which we compete.

We face many challenges in maintaining acceptable margins, and our level of gross margin may not be sustainable.

Gross margins among our products vary and are subject to fluctuation from quarter to quarter. The factors that may impact our gross margins adversely are numerous and include:

- Changes in customer, geographic, or product mix;
- Our ability to reduce product costs;
- Increases in material or labor costs;
- Expediting costs incurred to meet customer delivery requirements;
- Excess inventory and inventory carrying charges;
- Obsolescence charges;
- Changes in shipment volume;
- Changes in component pricing;
- Increased price competition;
- Changes in distribution channels;
- Increased warranty cost; and
- Our ability to manage the impact of foreign currency exchange rate fluctuations.

Consolidation among our customers has occurred and further consolidation may occur and result in the loss of some customers and may reduce revenue during the pendency of business combinations and related integration activities.

We believe future consolidation may occur among our customers in order for them to increase market share and achieve greater economies of scale. Consolidation has affected our business as our customers focus on completing business combinations and integrating their operations. In certain instances, customers integrating large-scale acquisitions have reduced their purchases of our products during the integration period.

The business impact to us of significant customer mergers is likely to be unclear until sometime after these transactions are completed. After a consolidation occurs, a customer may choose to reduce the number of vendors from which it purchases equipment and may choose one of our competitors as its preferred vendor. We cannot ensure that we will continue to supply equipment to the surviving communications service provider after a business combination is completed.

Our profitability could be affected negatively if one or more of our key customers substantially reduces orders for our products or transitions their purchases towards lower gross margin products.

Our customer base is somewhat concentrated, with our top ten customers accounting for 76%, 70% and 72% of net sales for fiscal 2011, 2010 and 2009, respectively. One of our largest customers, Verizon, accounted for 6%, 6% and 9% of our net sales for the fiscal years 2011, 2010 and 2009. The merger of AT&T and BellSouth in our fiscal 2007 created another large customer for us. In fiscal 2011, 2010 and 2009, this combined company accounted for approximately 9%, 9% and 12% of our sales, respectively. If we lose a significant customer for any reason, our sales and gross profit will be negatively affected.

Our record 2011 sales and profitability resulted in part from sales to one customer. We do not have any long-term commitment from this customer and do not expect 2012 sales from that customer to exceed 5% of our overall revenues.

Our 2011 sales included $32.8 million, or 22.8% of our overall revenue, from a one-time large network upgrade project with a Fortune 500 company that we completed in 2011. Although we expect to continue to sell to this customer in the future, we do not expect ongoing orders in 2012 or future years to exceed five percent of our revenues. If we unable to replace this business, it may have an adverse effect on our overall 2012 revenue and profitability.

Our JDL Technologies, Inc. segment has recently been dependent on a single customer. Although JDL's business plan is focused on providing a range of products and services to a broad range of customers in the education, healthcare, enterprise and government markets, we cannot ensure that JDL will be successful in its efforts.

Substantially all the sales of the Company's IT services business unit JDL Technologies, Inc. in 2011 and 2010 were to a single South Florida school district and accounted for 8.1% and 10.3% respectively of overall Company revenues. Although JDL began in 2011 to market a broad range of products and services to a number of potential customers, we cannot ensure that JDL will be able to achieve significant revenue in 2012 from either this customer or from new customers. If JDL is unable to achieve significant revenues, it may have an adverse effect on our overall 2012 revenue and profitability.

Our market is subject to rapid technological change and, to compete effectively, we must continually introduce new products that achieve market acceptance.

The communications equipment industry is characterized by rapid technological changes, evolving industry standards, changing market conditions, short product life cycles and rapidly changing customer requirements and frequent new product and service introductions and enhancements. The introduction of products using new technologies or the adoption of new industry standards can make our existing products, or products under development, obsolete or unmarketable. Our future success will depend on our ability to enhance our existing products, to introduce new products to meet changing customer requirements and emerging technologies, and to demonstrate the performance advantages and cost-effectiveness of our products over competing products. Failure by us to modify our products to support new alternative technologies or failure to achieve widespread customer acceptance of these modified products could cause us to lose market share and cause our revenues to decline.

We may not predict technological trends or the success of new products in the communications equipment market accurately. New product development often requires forecasting of market trends, development and implementation of new technologies and processes and substantial capital commitments. We do not know whether other new products we develop will gain market acceptance or result in profitable sales.

Certain of our competitors have greater engineering and product development resources than we have. Although we expect to continue to invest significant resources in product development activities, our efforts to achieve and maintain profitability will require us to be selective and focused with our research and development expenditures. If we fail to anticipate or respond in a cost-effective and timely manner to technological developments, changes in industry standards or customer requirements, or if we experience any significant delays in product development or introduction, our business, operating results and financial condition could be affected adversely.

We may experience delays in developing and marketing product enhancements or new products that respond to technological change, evolving industry standards and changing customer requirements. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction, and marketing of these products or product enhancements, or that our new products and product enhancements will adequately meet the requirements of the marketplace and achieve any significant or sustainable degree of market acceptance in existing or additional markets. In addition, the future introductions or announcements of products by us or one of our competitors embodying new technologies or changes in industry standards or customer requirements could render our then-existing products obsolete or unmarketable. We cannot ensure that the introduction or announcement of new product offerings by us or one or more of our competitors will not cause customers to defer their purchase of our existing products, which could cause our revenues to decline.

We evaluate and frequently pursue acquisitions, but we may not successfully close these acquisitions and, if these acquisitions are completed, we may have difficulty integrating the acquired businesses with our existing operations.

We regularly consider the acquisition of complementary companies and product lines. We cannot, however, ensure that we will be able to find appropriate candidates for acquisitions, reach agreement to acquire them, or obtain requisite shareholder or regulatory approvals needed to close strategic acquisitions, despite the effort and management attention invested.

The impact of future acquisitions on our business, operating results and financial condition is uncertain. In the case of businesses we may acquire in the future, we may have difficulty assimilating these businesses and their products, services, technologies and personnel into our operations. These difficulties could disrupt our ongoing business, distract our management and workforce, increase our expenses and materially adversely affect our operating results and financial condition. Also, we may not be able to retain key management and other critical employees after an acquisition. We may also acquire unanticipated liabilities. In addition to these risks, we may not realize all of the anticipated benefits of these acquisitions.

Our operating results fluctuate from quarter to quarter.

Our operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Fluctuations in our quarterly operating results may be caused by many factors, including the following:

- the volume of customer orders and our ability to fulfill those orders in a timely manner;
- the overall level of capital expenditures by our customers;
- work stoppages and other developments affecting the operations of our customers;
- the timing of and our ability to obtain new customer contracts;
- the timing of revenue recognition;
- the timing of new product and service introductions;
- the availability of products and services;
- market acceptance of new and enhanced versions of our products and services;
- variations in the mix of products and services we sell;
- the location and utilization of our production capacity and employees; and
- the availability and cost of key components of our products.

Our expense levels are based in part on expectations of future revenues. If revenue levels in a particular quarter are lower than expected, our operating results will be affected adversely.

We depend on manufacturing relationships and on limited-source suppliers and any disruptions in these relationships may cause damage to our customer relationships.

We procure all parts and certain services involved in the production of our products from, and subcontract much of our product manufacturing, to outside firms that specialize in these services. Although most of the components of our products are available from multiple vendors, we have several single-source supplier relationships, either because alternative sources are not available or because the relationship is advantageous to us. We cannot ensure that our suppliers will be able to meet our future requirements for products and components in a timely fashion. In addition, the availability of many of these components to us is dependent in part on our ability to provide our suppliers with accurate forecasts of our future requirements. Delays or lost sales could be caused by other factors beyond our control, including defects in the quality of components or products supplied by others.

We are dependent upon our senior management and other critical employees.

Like all communications technology companies, our success is dependent on the efforts and abilities of our senior management personnel and other critical employees, including those in sales, marketing and product development functions. Our ability to attract, retain and motivate these employees is critical to our success. In addition, because we may acquire one or more businesses in the future, our success will depend, in part, upon our ability to retain and integrate our own personnel with personnel from acquired entities that are necessary to the continued success or the successful integration of the acquired businesses.

Managing our inventory is complex and may include write-downs of excess or obsolete inventory.

Managing our inventory of components and finished products is complicated by a number of factors, including the need to maintain a significant inventory of finished goods for orders we anticipate but may not be received. These issues may cause us to purchase and maintain significant amounts of inventory. If this inventory is not used as expected based on anticipated requirements, it may become excess or obsolete. The existence of excess or obsolete inventory can result in sales price reductions or inventory write-downs, which could adversely affect our business and results of operations.

We face risks associated with expanding our sales outside of the United States.

We believe that our future growth depends in part upon our ability to increase sales in international markets. These sales are subject to a variety of risks, including fluctuations in currency exchange rates, tariffs, import restrictions and other trade barriers, unexpected changes in regulatory requirements, longer accounts receivable payment cycles and potentially adverse tax consequences, and export license requirements. In addition, we are subject to the risks inherent in conducting business internationally, including political and economic instability and unexpected changes in diplomatic and trade relationships. We cannot ensure that one or more of these factors will not have a material adverse effect on our business strategy and financial condition.

Compliance with internal control requirements is expensive and poses certain risks.

We expect to incur significant continuing costs, including accounting fees and staffing costs, in order to maintain compliance with the internal control requirements of the Sarbanes-Oxley Act of 2002. Expansion of our business, particularly internationally, will necessitate ongoing changes to our internal control systems, processes and information systems. In addition, if we complete acquisitions in the future, our ability to integrate operations of the acquired company could impact our compliance with Section 404 of the Sarbanes-Oxley Act. We cannot be certain that as our business changes, our current design for internal control over financial reporting will be sufficient to enable management to determine that our internal controls are effective for any period, or on an ongoing basis.

In the future, if we fail to complete the annual Section 404 evaluation in a timely manner, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Product defects or the failure of our products to meet specifications could cause us to lose customers and revenue or to incur unexpected expenses.

If our products do not meet our customers' performance requirements, our customer relationships may suffer. Also, our products may contain defects or fail to meet product specifications. Any failure or poor performance of our products could result in:

- delayed market acceptance of our products;
- delayed product shipments;
- unexpected expenses and diversion of resources to replace defective products or identify and correct the source of errors;
- damage to our reputation and our customer relationships;
- delayed recognition of sales or reduced sales; and

- product liability claims or other claims for damages that may be caused by any product defects or performance failures.

Our sales and operations may continue to be impacted adversely by current global economic conditions.

For the past several years, financial markets globally have experienced extreme disruption. This includes, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. The severity and length of the present disruptions in the financial markets and the global economy are unknown. We cannot ensure that there will not be a further deterioration in financial markets and in business conditions generally. These economic developments have adversely affected our business in a number of ways and will likely continue to adversely affect our business during the foreseeable future.

Risks Related to Our Common Stock

Our stock price has been volatile historically and the price of our common stock may fluctuate significantly in the future.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products by us or our competitors, the operating and stock price performance of other companies that investors may deem comparable to us, and new reports relating to trends in our markets or general economic conditions.

In addition, the stock market in general, and prices for companies in our industry in particular, have experienced extreme volatility that often has been unrelated to the operating performance of these companies. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

Anti-takeover provisions in our charter documents, our shareholder rights agreement and Minnesota law could prevent or delay a change in control of our company.

Provisions of our articles of incorporation and bylaws, our shareholder rights agreement (also known as a “poison pill”) and Minnesota law may discourage, delay or prevent a merger or acquisition that a shareholder may consider favorable, and could limit the price that investors are willing to pay for our common stock. These provisions include the following:

- advance notice requirements for shareholder proposals;
- authorization for our board of directors to issue preferred stock without shareholder approval;
- authorization for our board of directors to issue preferred stock purchase rights upon a third party’s acquisition of 16.5% or more of our outstanding shares of common stock;
- limitations on business combinations with interested shareholders;
- classification of Board of Directors that serve staggered, three year terms; and
- a super majority vote by shareholders is required to approve certain corporate actions, including merger transactions.

Some of these provisions may discourage a future acquisition of our company even though our shareholders would receive an attractive value for their shares, or a significant number of our shareholders believe such a proposed transaction would be in their best interest.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

CSI conducts administrative, manufacturing and engineering functions at the following facilities:

- In Minnetonka, Minnesota the Company owns a 105,000 square foot building where its executive and administrative offices are located. In addition, Transition Networks uses this facility for its warehouse, assembly, engineering and administrative operations, JDL Technologies, Inc. uses this facility for some administrative operations, and Suttle uses this facility for its sales, marketing and product development.
- Suttle's manufacturing is conducted at two locations. At Hector, Minnesota, the Company owns three plants totaling 88,000 square feet of manufacturing space. The Company leases 40,000 square feet of manufacturing space in San Jose, Costa Rica.
- Austin Taylor Communications, Ltd. owns a 40,000 square foot facility in Bethesda, Wales, U.K.
- Transition Networks leases 10,000 square feet of office space for engineering, procurement and marketing activities in Shanghai, China. The Company also leases 7,000 square feet of office space in the U.K. for its Patapsco operations.

CSI believes these facilities will be adequate to accommodate its administrative, manufacturing and distribution needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to claims and lawsuits that have been filed in the ordinary course of business. From time to time, the Company brings suit against others to enforce contract rights or property rights, or to collect debts in the ordinary course of business. Management believes that the resolution or settlement of currently pending litigation will not have a material adverse effect on the results of operations or liquidity of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

(a) MARKET INFORMATION

The Company's common stock trades on the NASDAQ under the trading symbol JCS.

The table below presents the price range of high and low trades of the Company's common stock for each quarterly period indicated as reported by NASDAQ for 2011 and 2010.

	2011		2010	
	High	Low	High	Low
First	$ 16.49	$ 13.33	$ 13.60	$ 11.27
Second	20.82	15.01	13.31	10.15
Third	20.93	12.60	11.57	10.00
Fourth	17.19	12.50	14.82	11.02

(b) HOLDERS

At March 1, 2012 there were approximately 579 registered holders of record of Communications Systems, Inc. common stock.

(c) DIVIDENDS

Communications Systems, Inc. paid regular quarterly dividends to its shareholders on the dates and at the rates indicated below:

Payment Date	Dividend per Share
January 1, 2012	$ .15
October 1, 2011	.15
July 1, 2011	.15
April 1, 2011	.15
January 1, 2011	.15
October 1, 2010	.15
July 1, 2010	.15
April 1, 2010	.14
January 1, 2010	.14

The payment of future dividends will be determined at the discretion of the Board of Directors.

(d) INFORMATION REGARDING EQUITY COMPENSATION PLANS

The following table presents information about the Company's equity compensation plans, under which equity securities of the Company are authorized for issuance, as of December 31, 2011:

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category (1)	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares in column (a))
Equity compensation plans approved by security holders:			
1992 Stock Plan-Employee Plan	162,243	$ 14.60	—
1992 Stock Plan-Nonemployee Director Plan	147,000	$ 9.63	—
1990 Employee Stock Purchase Plan	3,241	$ 12.65	66,413
2011 Executive Incentive Compensation Plan	15,582	$ 17.97	984,418

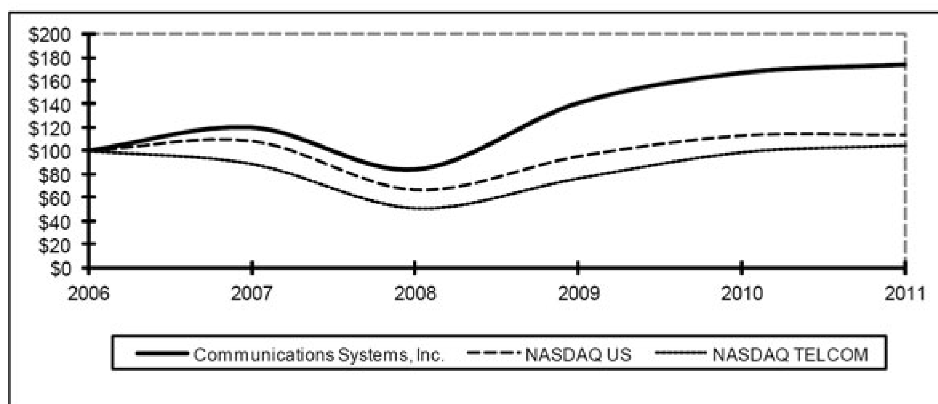
Equity compensation plans not approved by security holders:

None

(1) The Company does not have individual compensation arrangements involving the grant of options, warrants and rights.

(e) FIVE YEAR PERFORMANCE GRAPH

The following graph presents, at the end of each of the Company's last five fiscal years, the cumulative total return on the common stock of the Company as compared to the cumulative total return reported for the NASDAQ (U.S.), and the NASDAQ Telecommunications Index. Company information and each index assume the investment of $100 on the last business day before January 1, 2006 and the reinvestment of all dividends.



Comparison of Five-Year Cumulative Total Return

Company or Index	2006	2007	2008	2009	2010	2011
Communications Systems, Inc.	$ 100.000	$ 120.127	$ 83.889	$ 141.012	$ 167.035	$ 173.852
NASDAQ US	100.000	108.469	66.352	95.375	113.194	113.805
NASDAQ TELCOM	100.000	88.948	51.107	76.636	98.951	104.634

(f) RECENT SALES OF UNREGISTERED SECURITIES

Not applicable.

(g) PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The Company did not repurchase any shares of common stock during the three months ending December 31, 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
October 2011	none	—	—	481,938
November 2011	none	—	—	481,938
December 2011	none	—	—	481,938
Total	none	—	—	481,938

(1) Shares represent remaining amount of a 500,000 share repurchase authorization approved by the Company's Board in October 2008 and publicly announced in November 2008.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our consolidated financial statements and should be read in conjunction with the Consolidated Financial Statements and related notes thereto set forth in Item 8 and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL INFORMATION
(in thousands except per share amounts)

	Year Ended December 31				
	2011	2010	2009	2008	2007
Selected Income Statement Data					
Sales from Continuing Operations	$ 143,775	$ 120,072	$ 109,792	$ 122,700	$ 121,243
Costs and Expenses:					
Cost of Sales	84,880	68,872	67,944	76,008	78,357
Selling, General and Administrative Expenses	40,108	35,586	31,433	33,109	32,623
Impairment Loss	1,272		196	2,999	
Total Costs and Expenses	126,260	104,458	99,573	112,116	110,980
Operating Income	17,515	15,614	10,219	10,584	10,263
Other Income (Expense), Net	105	20	581	597	1,760
Income Before Income Taxes	17,620	15,634	10,800	11,181	12,023
Income Tax Expense	7,822	5,919	4,756	4,570	4,512
Net Income	$ 9,798	$ 9,715	$ 6,044	$ 6,611	$ 7,511
Basic Net Income Per Share	$ 1.16	$ 1.16	$ .72	$ .77	$ .86
Diluted Net Income Per Share	$ 1.15	$ 1.15	$ .72	$ .77	$ .85
Cash Dividends Declared Per Share	$ .60	$ .59	$ .52	$ .48	$ .42
Average Dilutive Shares Outstanding	8,496	8,415	8,352	8,563	8,831
Selected Balance Sheet Data					
Total Assets	$ 116,659	$ 109,070	$ 102,914	$ 98,738	$ 100,760
Property, Plant and Equipment, Net	14,019	13,214	13,322	12,015	13,945
Long-term Liabilities	3,741	5,004	4,220	4,919	4,045
Stockholders' Equity	97,531	91,397	85,939	83,728	84,931

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Communications Systems, Inc. is a global company with sales in over 90 countries and facilities supporting design, manufacturing and distribution in the United States, Costa Rica, China and the United Kingdom. CSI provides physical connectivity infrastructure and services for global deployments of broadband networks. Focusing on innovative, cost-effective solutions, CSI provides customers the ability to deliver, manage, and optimize their broadband network services and architecture. From the integration of fiber optics in any application and environment to efficient home voice and data deployments to optimization of data and application access, CSI provides the tools for maximum utilization of the network from the edge to the user. Along with our broad range of technology offered, CSI has built a reputation as a reliable global innovator focusing on quality and customer service.

The voice, video and data markets in which we sell products provide services that are vital to the modern world. Therefore, we expect the size of these markets will, generally, continue to expand, although the pace of growth will be affected by economic conditions in the United States and around the world. This growth, along with inevitable technological change, will generate challenges and opportunities for the type of products we sell.

From our customers' perspective, our goal is to become a market leader delivering high quality, competitively priced products and services. From our shareholders' perspective, our goal is to steadily and consistently increase our revenues and profits. Achieving these goals will require success in the following areas:

- We must apply our financial resources to support increased sales, maintain brand loyalty, improve product quality and develop new products.
- At the same time, we must maintain price levels and control expenses to provide adequate margins and superior bottom line results.
- Finally, to accelerate our growth we must continue to expand our sales outside of the US and prudently acquire complementary businesses and product lines.

While we face the many challenges and risks that we discussed earlier in this report, we believe our greatest challenges will be responding to intense market competition and successfully introducing new products. Some of our competitors are larger and better capitalized, and some are based outside the US. These firms often have greater capacity to both (i) absorb lower margins that are inconsistent with our financial goals and (ii) support a higher level of new product development using their greater resources or lower cost structure. In order to achieve profitable growth in the face of these challenges, we must constantly validate the value of our products to new and existing customers and select and pursue new product development opportunities and product line acquisitions that best fit our capabilities, resources and competitive position.

We are currently pursuing these objectives through the following four business units:

JDL Technologies

JDL Technologies is an IT services company that provides outsourced technical services to the education, healthcare, government and enterprise market segments. JDL's portfolio of technology solutions includes virtualization, managed services, wired and wireless network design and implementation services, and converged infrastructure configuration and deployment. JDL's largest customer has been the School Board of Broward County, Florida (SBBC). JDL runs SBBC's Network Operation Center that monitors all network elements (servers, switches, routers) and over 60,000 computers in 265 buildings for the nation's 6th largest school district.

Suttle

Founded in 1910, Suttle is one of the world's largest suppliers of high-volume copper and fiber connectivity products used by North America's largest telcos. Suttle also designs, manufactures and markets a full line of structured wiring components for "small office, home office" (SOHO) for voice, video and high-speed data communications convergent solutions. Suttle's products are used throughout the telco, "multi-service cable operators" (MSOs), and installer/contractor markets.

Transition Networks

Transition Networks offers a full suite of networking connectivity solutions including media converters, network interface cards, switches, and coarse-wave division multiplexing (CWDM). Utilizing engineering resources in the U.S. and its Product Design and Development Facility in Shanghai, China, Transition Networks designs and markets products for a broad spectrum of protocols including Ethernet, Fast Ethernet, Gigabit Ethernet, T1/E1, DS3, and serial. Transition Networks distributes these hardware-based connectivity solutions through a network of resellers in 90 countries and is the preferred choice among industry IT professionals for high-end media conversion devices, Network Interface Devices, and Ethernet switches. In 2011, the Company acquired Patapsco Design Limited as part of Transition Networks' expansion outside the North American market.

Austin Taylor

Located in Bethesda, Wales, United Kingdom, Austin Taylor manufactures cabling installation and connection products for copper and fiber optic media. Austin Taylor serves the government and commercial markets throughout Europe and the Middle East with British standard products. Austin Taylor's broad catalog of products ranges from telephony linejacks to structured cabling and from plastic connection boxes to metal cabinets. At the end of 2011, we discontinued the metal cabinet manufacturing portion of the business due to limited profitability opportunities for that business.

Forward Looking Statements

In this report and from time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, we may make "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We may make these forward looking statements concerning possible or anticipated future financial performance, business activities, plans, pending claims, investigations or litigation, which are typically preceded by the words "believes," "expects," "anticipates," "intends" or similar expressions. For these forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. Shareholders and the investing public should understand that these forward looking statements are subject to risks and uncertainties that could cause actual performance, activities, anticipated results, outcomes or plans to differ significantly from those indicated in the forward-looking statements. For a detailed discussion of a number of such risk factors, please see Item 1A above.

Critical Accounting Policies

Inventory Valuation: We value inventories at the lower of cost or market. Reserves for overstock and obsolescence are estimated and recorded to reduce the carrying value to estimated net realizable value. The amount of the reserve is determined based on projected sales information, plans for discontinued products and other factors. Though management considers these reserves adequate and proper, changes in sales volumes due to unexpected economic or competitive conditions are among the factors that could materially affect the adequacy of this reserve.

Income Taxes: In the preparation of the Company's consolidated financial statements, management calculates income taxes. This includes estimating the Company's current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood it will realize these deferred assets from future taxable income. We determine the valuation allowance for deferred income tax benefits based upon the expectation of whether the benefits are more likely than not to be realized. The Company records interest and penalties related to income taxes as income tax expense in the Consolidated Statements of Income.

Goodwill Impairment: We are required to evaluate goodwill for impairment on an annual basis and between annual tests upon the occurrence of certain events or circumstances. We perform a two-step process to analyze whether or not goodwill has been impaired. Step one is to test for potential impairment, and requires that the fair value of the reporting unit be compared to its book value including goodwill. If the fair value is higher than the book value, no impairment is recognized. The Company estimates the fair value of each reporting unit based on a discounted cash flow analysis. If the fair value is lower than the book value, a second step must be performed. The second step is to measure the amount of impairment loss, if any, and requires that a hypothetical purchase price allocation be done to determine the implied fair value of goodwill. This fair value is then compared to the carrying value of goodwill. If the implied fair value is lower than the carrying value, an impairment adjustment must be recorded.

The Company believes that accounting estimates related to goodwill impairment are critical because the underlying assumptions used for the discounted cash flow can change from period to period and could potentially cause a material impact to the income statement. Management's assumptions about inflation rates and other internal and external economic conditions, such as earnings growth rate, require significant judgment based on fluctuating rates and expected revenues.

Revenue Recognition: The Company recognizes revenue when the earnings process is complete, evidenced by persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. In the Suttle, Transition Networks and Austin Taylor segments, the earning process completion is evidenced through the shipment of goods, based on the sales terms of these segments, the risk of loss is transferred upon shipment or delivery to customers and there are no significant obligations subsequent to that point. There are not significant estimates related to revenue recognition for these segments.

JDL Technologies records revenue on hardware, software and related equipment sales and installation contracts when the revenue recognition criteria are met and the products are installed and accepted by the customer. JDL records revenue on service contracts on a straight-line basis over the contract period, unless evidence suggests that the revenue is earned in a different pattern. Each contract is individually reviewed to determine when the earnings process is complete.

Results of Operations

2011 Compared to 2010

Sales were $143,775,000 in 2011, a 20% increase from sales of $120,072,000 in 2010. Operating income increased 12% to $17,515,000 in 2011 as compared to $15,614,000 in 2010. Income before income taxes increased 13% to $17,620,000 from $15,635,000 in 2010. Net income increased 1% to $9,798,000 in 2011 compared to $9,715,000 in 2010.

Suttle

Suttle sales increased slightly to $36,637,000 in 2011 compared to $36,562,000 in 2010. Sales by product groups in 2011 and 2010 were:

	Suttle Sales by Product Group	
	2011	2010
Modular connecting products	$ 12,662,000	$ 14,318,000
DSL products	10,146,000	11,884,000
Structured cabling products	12,302,000	9,956,000
Other products	1,527,000	404,000
	$ 36,637,000	$ 36,562,000

Suttle's sales by customer groups in 2011 and 2010 were:

	Suttle Sales by Customer Group	
	2011	2010
Telephone companies	$ 27,124,000	$ 25,581,000
Distributors	4,461,000	5,227,000
International	4,587,000	5,620,000
Other	465,000	134,000
	$ 36,637,000	$ 36,562,000

The increase in sales is due primarily to increased sales to Suttle's domestic telecommunication customers. Sales to the telephone companies increased 6% to $27,124,000 in 2011 compared to $25,581,000 in 2010 due to fulfillment of new product contracts and increased sales tied to enhanced network deployments. Sales to these customers accounted for 74% of Suttle's sales in 2011 compared to 70% of sales in 2010. Sales to distributors, OEMs, and electrical contractors decreased 15% and accounted for 12% of sales in 2011 compared to 14% in 2010. The decline in this segment is a direct result of reduced opportunities in the domestic market for new SFU and MDU construction. International sales accounted for 13% of Suttle's 2011 sales but declined 18% compared to 2010. The decrease in sales in this segment is due primarily to volatility in fulfillment of DSL business, and decreased sales of voice products due to land-line loss.

Suttle's gross margin decreased 4% to $9,271,000 in 2011 compared to $9,681,000 in 2010. The gross margin percentage was 25% in 2011 compared to 26% in 2010. This decrease is a result of shifting product mix, as sales from modular connecting blocks decreased. Suttle realizes its highest selling margins on modular connecting products.

Selling, general and administrative expenses increased 4% to $6,898,000 in 2011 compared to $6,638,000 in 2010 due to increases in spending on technology development.

Suttle's operating income declined 64% to $1,102,000 in 2011 from $3,043,000 in 2010 due in part to the margin erosion mentioned above and a goodwill impairment charge of $1,272,000 in the second quarter of 2011.

Transition Networks

Transition Networks is a provider of active networking hardware devices. Characteristics of the business include a rapid pace of change in technologies and alternative solutions to our products. Transition Networks derives the majority of its business from one-time network upgrade projects. The core markets for these products are enterprise, service providers, and industrial users. Roughly 85% of Transition Networks revenue comes from North America, but we continue to see opportunity for long-term growth outside of North America and we will invest resources in sales, marketing, and infrastructure to grow that business.

Transition Networks sales increased 35% to $91,450,000 in 2011 compared to $67,782,000 in 2010. Transition Networks organizes its sales force and segments its customers geographically. Sales by customer groups in 2011 and 2010 were:

	Transition Networks Sales by Region	
	2011	2010
North America	$ 77,448,000	$ 56,424,000
EMEA	7,178,000	4,708,000
Rest of world	6,824,000	6,650,000
	$ 91,450,000	$ 67,782,000

The following table summarizes Transition Networks' 2011 and 2010 sales by product group:

	Transition Networks Sales by Product Group	
	2011	2010
Media converters	$ 72,781,000	$ 50,360,000
Ethernet switches	4,523,000	4,275,000
Ethernet adapters	6,422,000	7,494,000
Other products	7,724,000	5,653,000
	$ 91,450,000	$ 67,782,000

Sales in North America increased 37% or $21,024,000 compared to 2010 due to $32,836,000 in revenue from a one-time large network upgrade project with a Fortune 500 company. Sales to this customer also resulted in the increase in media converter revenue. The increase in revenue from this customer was partially offset by a decrease in sales to some of Transition Networks' traditional customers. Other vertical markets, especially the Federal Government market in the United States, recorded lower revenue due to the slow down in government purchases resulting in project delays. International sales increased $2,644,000, or 23%, due to a strong rebound in the Asia Latin America and EMEA markets. The increase was due to an increase in activity in projects for Telco customers in deploying data services as well as security and surveillance installations (IP video surveillance). The increase is also partially attributed to the acquisition of Patapsco, which contributed approximately $740,000 in additional revenue, primarily related to the EMEA region.

Gross margin increased 24% to $44,625,000 in 2011 compared to $35,956,000 in 2010 due to an increase in revenues. Gross margin as a percentage of sales decreased to 49% in 2011 compared to 53% in 2010 due to volume discounts given for the large network upgrade project with the Fortune 500 company described above.

Selling, general and administrative expenses increased 11% to $23,731,000 in 2011 from $21,459,000 in 2010 due primarily to an increase in selling expense and adding staff to both the U.S. and China facilities. Operating income increased 44% to $20,894,000 in 2011 compared to $14,497,000 in 2010 due to an increase in gross margin dollars of 24% and a smaller increase of SG&A of only 11%.

Transition Networks will continue to develop products based on market needs as well as by following industry standards set by such organizations as the Institute of Electrical and Electronics Engineers (IEEE) and the Metro Ethernet Forum (MEF). We will also continue to invest in sales and marketing to grow revenues in our target markets and expand sales outside of North America.

JDL Technologies, Inc.

Sales by JDL Technologies, Inc. (the Company's IT services business unit) decreased 2% to $12,401,000 in 2011 compared to $12,712,000 in 2010. The following table summarizes JDL's revenues by customer group in 2011 and 2010:

	JDL Revenue by Customer Group	
	2011	2010
Broward County FL schools	$ 11,621,000	$ 12,391,000
All other	780,000	321,000
	$ 12,401,000	$ 12,712,000

Revenues earned in Broward County FL decreased $770,000 or 6% in 2011. The decrease was the result of increased IT infrastructure contract funding from the federal government during 2010 that concluded in September 2011.

JDL gross margin decreased 8% to $5,139,000 in 2011 compared to $5,580,000 in 2010. Gross margin as a percentage of sales decreased to 41% in 2011 from 44% in 2010 due to purchasing discounts and rebates the Company was able to take advantage of during the prior year.

Selling, general and administrative expenses increased 35% in 2011 to $1,982,000 compared to $1,470,000 in 2010. This is primarily due to an increase in sales and marketing expenses, related to the addition of sales personnel. Operating income decreased to $3,156,000 in 2011 compared to $4,110,000 in 2010.

Austin Taylor

Austin Taylor's revenues increased 9% to $3,288,000 in 2011, compared to $3,016,000 in 2010. This increase is due to continued sales penetration into the UK and Ireland distribution network and OEM market. Gross margin decreased to a loss of $140,000 in 2011 from a loss of $17,000 in 2010. Gross margin as a percentage of sales was -4% in 2011 compared to -1% in 2010. This decrease was due to greatly increased material and finished goods costs compounded by the margin effects of fixed term contracts. Austin Taylor reported an operating loss in 2011 of $1,460,000 compared to $1,101,000 in 2010. Management is currently implementing measures to improve Austin Taylor's performance.

Other

Income before income taxes increased 13% to $17,620,000 in 2011 compared to $15,635,000 in 2010. The Company's effective income tax rate was 44% in 2011 compared to 38% in 2010. This effective rate was higher than the standard rate of 35% due to state income taxes, foreign losses not deductible for U.S. income tax purposes, provisions for interest charges, goodwill impairment, and acquisition costs not deductible for income tax purposes as explained in Note 10 to the consolidated financial statements.

2010 Compared to 2009

Sales were $120,072,000 in 2010, a 9% increase from sales of $109,792,000 in 2009. Operating income increased 53% to $15,614,000 in 2010 as compared to $10,219,000 in 2009. Income before income taxes increased 45% to $15,635,000 from $10,799,000 in 2009. Net income increased 61% to $9,715,000 in 2010 compared to $6,044,000 in 2009.

Suttle

Suttle sales decreased 15% to $36,562,000 in 2010 compared to $42,867,000 in 2009. Sales by product groups in 2010 and 2009 were:

	Suttle Sales by Product Group	
	2010	2009
Modular connecting products	$ 14,318,000	$ 16,120,000
DSL products	11,884,000	13,310,000
Structured cabling products	9,956,000	12,821,000
Other products	404,000	616,000
	$ 36,562,000	$ 42,867,000

Suttle's sales by customer groups in 2010 and 2009 were:

	Suttle Sales by Customer Group	
	2010	2009
Telephone companies	$ 25,726,000	$ 30,309,000
Distributors	5,227,000	6,840,000
International	5,475,000	5,547,000
Other	134,000	171,000
	$ 36,562,000	$ 42,867,000

The decrease in sales was due primarily to the erosion in the number of land-line customers served by the major telephone customers, volatility in the large DSL contracts, and the continued severe downturn in the domestic housing market. Sales to the telephone companies decreased 15% to $25,726,000 in 2010 compared to $30,309,000 in 2009 due to decreased DSL deployment and continued contraction of the domestic housing market. Sales to these customers accounted for 70% of Suttle's sales in 2010 compared to 71% of sales in 2009. Sales to distributors, OEMs, and electrical contractors decreased 24% and accounted for 14% of sales in 2010 compared to 16% in 2009. The decline in this segment is a direct result of reduced opportunities in the domestic market for new SFU construction and MDU construction. International sales accounted for 15% of Suttle's 2010 sales but declined 1% compared to 2009. International telephone customers also faced land-line loss causing decreased sales of voice products. DSL product sales into this segment did increase as customers increased investments in broadband.

Suttle's gross margin decreased 1% to $9,681,000 in 2010 compared to $9,771,000 in 2009. The gross margin percentage was 26% in 2010 compared to 23% in 2009. This increase in gross margin as a percentage of sales was due to favorable product mix changes. Suttle realizes its highest selling margins on modular connecting products. DSL products are the least profitable.

Selling, general and administrative expenses increased 10% to $6,638,000 in 2010 compared to $6,054,000 in 2009 due to increases in spending on technology development.

Suttle's operating income declined 18% to $3,043,000 in 2010 from $3,717,000 in 2009 due to the decreased revenues noted above.

Transition Networks

Transition Networks sales increased 23% to $67,782,000 in 2010 compared to $55,098,000 in 2009. Transition Networks organizes its sales force and segments its customers geographically. Sales by customer groups in 2010 and 2009 were:

	Transition Networks Sales by Region	
	2010	2009
North America	$ 56,424,000	$ 45,213,000
EMEA	4,708,000	4,818,000
Rest of world	6,650,000	5,067,000
	$ 67,782,000	$ 55,098,000

The following table summarizes Transition Networks' 2010 and 2009 sales by product group:

	Transition Networks Sales by Product Group	
	2010	2009
Media converters	$ 50,360,000	$ 39,251,000
Ethernet switches	4,275,000	3,786,000
Ethernet adapters	7,494,000	8,903,000
Other products	5,653,000	3,158,000
	$ 67,782,000	$ 55,098,000

Sales in North America increased 25% compared to 2009. The increase in sales largely came from an increase in two of Transition Networks' focus vertical markets: Federal Government and Telco. The increase in the Federal Government sales were due in part to some Voice over IP (VoIP) projects while the increase in Telco came from wireless backhaul projects and last mile data delivery services for businesses. International sales increased $1,473,000, or 15%, due to a strong rebound in the Asia and Latin America markets. The increase was due to an increase in activity in projects for Telco customers in deploying data services. Sales in EMEA lagged due to a sluggish world economy, increased price competition, and currency fluctuations.

Gross margin increased 23% to $35,956,000 in 2010 compared to $29,329,000 in 2009 due to an increase in revenues. Gross margin as a percentage of sales remained stable at 53% in 2010 compared to 53% in 2009.

Selling, general and administrative expenses increased 11% to $21,459,000 in 2010 from $19,371,000 in 2009 due primarily to an increase in selling expense and adding engineering staff to the China facility. Operating income increased 46% to $14,497,000 in 2010 compared to $9,958,000 in 2009 due to an increase in gross margin dollars of 23% and a smaller increase of SG&A of only 11%.

JDL Technologies, Inc.

Sales by JDL Technologies, Inc. (the Company's IT services business unit) increased 45% to $12,712,000 in 2010 compared to $8,765,000 in 2009. The following table summarizes JDL's revenues by customer group in 2010 and 2009:

	JDL Revenue by Customer Group	
	2010	2009
Broward County FL schools	$ 12,391,000	$ 8,594,000
All other	321,000	171,000
	$ 12,712,000	$ 8,765,000

Revenues earned in Broward County FL increased $3,797,000 or 44% in 2010. The increase was the result of increased IT infrastructure contract funding from the federal government.

JDL made a strategic decision in 2010 to position itself as a high-quality provider of design, implementation and management of information technology solutions and is expanding its market focus from K-12 Education to include K-20 Education, Healthcare, Enterprise and Government markets.

JDL gross margin increased 103% to $5,580,000 in 2010 compared to $2,753,000 in 2009. Gross margin as a percentage of sales increased to 44% in 2010 from 31% in 2009 due to purchasing discounts and rebates the Company was able to take advantage of during the year.

Selling, general and administrative expenses increased 13% in 2010 to $1,470,000 compared to $1,299,000 in 2009, but has decreased as a percentage of sales from 14.8% in 2009 to 11.6% in 2010. This is primarily due to an increase in compensation expenses and sales activities. Operating income increased to $4,110,000 in 2010 compared to $1,455,000 in 2009.

Austin Taylor

Austin Taylor's revenues decreased 1% to $3,016,000 in 2010, compared to $3,061,000 in 2009. This decrease is primarily due to difficulties in securing connector products from Far East contract manufacturers and the general European economic slowdown. Gross margin decreased to a loss of $17,000 in 2010 from a loss of $6,000 in 2009. Gross margin as a percentage of sales was -1% in 2010 compared to 0% in 2009. This decrease was due to greatly increased material and finished goods costs compounded by the margin effects of fixed term contracts. Additionally, Austin Taylor was burdened with the financial impact of product quality issues from two of its major vendors. Austin Taylor reported an operating loss in 2010 of $1,101,000 compared to $1,214,000 in 2009. Included in the 2009 operating loss is a $196,000 impairment charge related to Austin Taylor's machinery and equipment assets. Management is currently implementing measures to improve Austin Taylor's performance.

Other

Income before income taxes increased 45% to $15,635,000 in 2010 compared to $10,799,000 in 2009. The Company's effective income tax rate was 38% in 2010 compared to 44% in 2009. This effective rate was higher than the standard rate of 35% due to state income taxes, foreign losses not deductible for U.S. income tax purposes, and provisions for interest charges

Acquisitions and Dispositions

The Company is a growth-oriented manufacturer of telecommunications connecting and networking devices. The Company continually searches for acquisition candidates with products that will enable the Company to better serve its target markets.

Effects of Inflation

Inflation has not had a significant effect on operations. The Company does not have long-term production or procurement contracts and has historically been able to adjust pricing and purchasing decisions to respond to inflationary pressures.

Liquidity and Capital Resources

As of December 31, 2011, the Company had approximately $46,035,000 in cash, cash equivalents and investments. Of this amount, $830,000 was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the federal deposit insurance company (FDIC) or other government agency. These money market funds seek to preserve the value of the investment at $1.00 per share; however, it is possible to lose money investing in these funds. The remainder in cash and cash equivalents is operating cash and certificates of deposit, which are fully insured through the FDIC. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company also had $23,519,000 in investments consisting of certificates of deposit that are traded on the open market and are classified as available-for-sale at December 31, 2011.

The Company had current assets of approximately $89,946,000 and current liabilities of $15,388,000 at December 31, 2011 compared to current assets of $86,204,000 and current liabilities of $12,669,000 at the end of 2010.

Cash flow provided by operating activities was approximately $14,067,000 in 2011 compared to $9,726,000 provided by operations in 2010. Significant working capital changes from 2010 to 2011 included a decrease in accounts receivable of $3,274,000 related to an overall decrease in sales in the fourth quarter of 2011 as compared to 2010 as well as an increase in prepaid income taxes due to the timing of federal income tax payments during the year.

Investing activities used $3,120,000 of cash in 2011 compared to cash used of $9,298,000 in 2010. This decrease in cash used in investing activities is primarily due to the decrease in additional purchases of investments as compared to the prior year. The Company made net purchases of $7,531,000 in the prior year and had net proceeds of $2,751,000 in the current year. Additionally, the Company acquired Patapsco Designs Limited during 2011 and paid $3,138,000 in consideration, with an estimated $1,003,000 to be paid out in deferred and contingent consideration.

Net cash used by financing activities was $5,185,000 in 2011 compared to $4,889,000 in 2010. Cash dividends paid on common stock increased to $5,065,000 in 2011 ($0.60 per common share) from $4,858,000 in 2010 ($0.59 per common share). Proceeds from common stock issuances, principally shares sold to the Company's Employee Stock Ownership Plan and under the Company's Employee Stock Purchase Plan, totaled approximately $257,000 in 2011 and $308,000 in 2010. The Company purchased and retired no shares in 2011 and 2010. At December 31, 2011, Board of Director authority to purchase approximately 481,938 additional shares remained in effect.

As part of the acquisition of the new Minnetonka headquarters building in July 2007, the Company assumed an outstanding mortgage of $4,380,000. The mortgage is payable in monthly installments and carries an interest rate of 6.83%. The mortgage matures on March 1, 2016. Mortgage payments on principal totaled $399,000 during 2011. The outstanding balance on the mortgage was $2,002,000 at December 31, 2011.

The Company expects that the effective income tax rate for fiscal 2012 will be approximately 40%.

The Company had no outstanding obligations under its line of credit at December 31, 2011 and 2010, and the Company's entire credit line ($10,000,000 at March 1, 2012) is available for use. Interest on borrowings on the credit line is at the LIBOR rate plus 1.1% (1.7% at December 31, 2011). The prior credit agreement expired October 31, 2011. As noted within the notes to the financial statements, the Company entered into a new $10,000,000 line of credit agreement effective October 28, 2011, expiring on October 31, 2013. In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

Contractual Obligation Summary

The following table summarizes our contractual obligations at December 31, 2011 and the effect these obligations are expected to have on our liquidity and cash flow in future periods:

	Less than One Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-term debt	$ 427,000	$ 947,000	$ 628,000	$ 0
Interest on long-term debt	124,000	155,000	28,000	
Pensions	351,000	751,000	479,000	2,043,000
Operating leases	175,000	7,000	—	—
ERP purchasing obligations	532,000	207,000	—	—
Compensation plans	1,741,000	283,000	—	—
Total	$ 3,350,000	$ 2,350,000	$ 1,135,000	$ 2,043,000

As of December 31, 2011, the Company had no other material commitments (either cancelable or non-cancelable) for capital expenditures, short or long term debt, capital leases or other purchase commitments related to ongoing operations.

Recently Issued Accounting Pronouncements

We do not believe there are any recently issued accounting standards that have not yet been adopted that will have a material impact on the Company's financial statements.

Off Balance Sheet Arrangements

None.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no freestanding or embedded derivatives. The Company's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

The vast majority of our transactions are denominated in U.S. dollars; as such, fluctuations in foreign currency exchange rates have historically not been material to the Company. At December 31, 2011 our bank line of credit carried a LIBOR rate plus 1.1%. The Company's investments are money market and certificates of deposit types of investments that earn interest at prevailing market rates and as such do not have material risk exposure.

Based on the Company's operations, in the opinion of management, the Company is not exposed to material future losses due to market risk.

The Company uses the U.S. dollar as its functional currency in Costa Rica and China. Accordingly, the Company believes its risk of material loss due to fluctuations in foreign currency markets to be small.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

The management of Communications Systems, Inc. and its subsidiary companies is responsible for the integrity and objectivity of the financial statements and other financial information contained in the annual report. The financial statements and related information were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's informed judgments and estimates.

In fulfilling its responsibilities for the integrity of financial information, management maintains accounting systems and related controls. These controls provide reasonable assurance, at appropriate costs, that assets are safeguarded against losses and that financial records are reliable for use in preparing financial statements. Management recognizes its responsibility for conducting the Company's affairs according to the highest standards of personal and corporate conduct.

The Audit Committee of the Board of Directors, comprised solely of outside directors, meets with the independent auditors and management periodically to review accounting, auditing, financial reporting and internal control matters. The independent auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

/s/ William G. Schultz	/s/ David T. McGraw
William G. Schultz Chief Executive Officer	David T. McGraw Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Communications Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Communications Systems, Inc. and subsidiaries (the “Company”), as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2012, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
March 15, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Communications Systems, Inc.:

We have audited the internal control over financial reporting of Communications Systems, Inc., and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Patapsco Designs Limited of the UK, which was acquired on July 27, 2011, and whose financial statements constitute 2.7 percent of total assets, less than one percent of total revenues, and less than one percent of net income from continuing operations of the consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at Patapsco Designs Limited of the UK. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011, of the Company, and our report dated March 15, 2012, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
March 15, 2012

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31 2011	December 31 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,515,710	$ 16,787,558
Investments	18,635,601	21,698,905
Trade accounts receivable, less allowance for doubtful accounts of $175,000 and $500,000, respectively	14,461,168	17,544,136
Inventories	25,986,003	24,498,935
Prepaid income taxes	3,893,003	296,586
Other current assets	999,863	908,102
Deferred income taxes	3,455,047	4,469,941
TOTAL CURRENT ASSETS	89,946,395	86,204,163
PROPERTY, PLANT AND EQUIPMENT, net	14,019,019	13,214,067
OTHER ASSETS:		
Investments	4,883,510	4,588,267
Goodwill	5,990,571	4,560,217
Funded pension assets	905,552	349,575
Other assets	913,869	153,938
TOTAL OTHER ASSETS	12,693,502	9,651,997
TOTAL ASSETS	$ 116,658,916	$ 109,070,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 427,345	$ 399,209
Accounts payable	4,398,848	5,385,558
Accrued compensation and benefits	5,870,000	3,951,401
Accrued consideration	1,002,623	—
Other accrued liabilities	2,388,867	1,669,776
Dividends payable	1,299,963	1,263,434
TOTAL CURRENT LIABILITIES	15,387,646	12,669,378
LONG TERM LIABILITIES:		
Long-term compensation plans	283,075	1,738,105
Uncertain tax positions	405,673	678,395
Deferred income taxes	1,476,969	585,317
Long-term debt - mortgage payable	1,574,993	2,002,339
TOTAL LONG-TERM LIABILITIES	3,740,710	5,004,156
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; 8,466,774 and 8,422,890 shares issued and outstanding, respectively	423,339	421,144
Additional paid-in capital	35,533,273	34,491,370
Retained earnings	61,466,342	56,769,816
Accumulated other comprehensive income	107,606	(285,637)
TOTAL STOCKHOLDERS' EQUITY	97,530,560	91,396,693
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 116,658,916	$ 109,070,227

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended December 31		
	2011	2010	2009
Sales	$ 143,775,051	$ 120,072,310	$ 109,792,207
Costs and expenses:			
Cost of sales	84,879,924	68,871,678	67,943,557
Selling, general and administrative expenses	40,108,221	35,586,248	31,434,097
Impairment loss	1,271,986		196,020
Total costs and expenses	126,260,131	104,457,926	99,573,674
Operating income	17,514,920	15,614,384	10,218,533
Other income and (expenses):			
Investment and other income	313,544	251,002	810,039
(Loss)/gain on sale of assets	(27,081)	(9,238)	39,919
Interest and other expense	(181,393)	(221,611)	(269,151)
Other income, net	105,070	20,153	580,807
Income from operations before income taxes	17,619,990	15,634,537	10,799,340
Income tax expense	7,822,124	5,919,104	4,755,695
Net income	9,797,866	9,715,433	6,043,645
Other comprehensive income (loss):			
Additional minimum pension liability adjustments	(525,000)	43,999	285,000
Unrealized (losses)/gains on available-for-sale securities	(16,691)	(19,744)	33,802
Foreign currency translation adjustment	934,934	(182,770)	(237,386)
Total other comprehensive income (loss)	393,243	(158,515)	81,416
Comprehensive income	$ 10,191,109	$ 9,556,918	$ 6,125,061
Basic net income per share:	$ 1.16	$ 1.16	$ .72
Diluted net income per share:	$ 1.15	$ 1.15	$ .72
Weighted Average Basic Shares Outstanding	8,448,612	8,384,242	8,339,566
Weighted Average Dilutive Shares Outstanding	8,495,873	8,414,566	8,352,084
Dividends declared per share	$ .60	$ .59	$ .52

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2008	8,282,349	$ 414,117	$ 33,019,154	$ 50,503,410	$ (208,538)	$ 83,728,143
Net income				6,043,645		6,043,645
Issuance of common stock under Employee Stock Purchase Plan	12,327	616	101,450			102,066
Issuance of common stock to Employee Stock Ownership Plan	56,933	2,847	441,231			444,078
Issuance of common stock under Employee Stock Option Plan	6,400	320	68,240			68,560
Tax benefit from non-qualified employee stock options			467			467
Share based compensation			31,571			31,571
Purchase of common stock	(5,126)	(256)	(20,603)	(32,258)		(53,117)
Shareholder dividends				(4,507,536)		(4,507,536)
Other comprehensive income					81,416	81,416
BALANCE AT DECEMBER 31, 2009	8,352,883	$ 417,644	$ 33,641,510	$ 52,007,261	$ (127,122)	$ 85,939,293
Net income				9,715,433		9,715,433
Issuance of common stock under Employee Stock Purchase Plan	11,107	555	124,579			125,134
Issuance of common stock to Employee Stock Ownership Plan	37,900	1,895	469,581			471,476
Issuance of common stock under Non-Employee Stock Option Plan	21,000	1,050	181,626			182,676
Tax benefit from non-qualified stock options			34,981			34,981
Share based compensation			39,093			39,093
Shareholder dividends				(4,952,878)		(4,952,878)
Other comprehensive income					(158,515)	(158,515)
BALANCE AT DECEMBER 31, 2010	8,422,890	$ 421,144	$ 34,491,370	$ 56,769,816	$ (285,637)	$ 91,396,693
Net income				9,797,866		9,797,866
Issuance of common stock under Employee Stock Purchase Plan	10,308	515	151,761			152,276
Issuance of common stock to Employee Stock Ownership Plan	22,493	1,125	314,902			316,027
Issuance of common stock under Non-Employee Stock Option Plan	9,000	450	72,450			72,900
Issuance of common stock under Executive Stock Plan	2,083	105	31,974			32,079
Tax benefit from non-qualified stock options			21,920			21,920
Share based compensation			448,896			448,896
Shareholder dividends				(5,101,340)		(5,101,340)
Other comprehensive income					393,243	393,243
BALANCE AT DECEMBER 31, 2011	8,466,774	$ 423,339	$ 35,533,273	$ 61,466,342	$ 107,606	$ 97,530,560

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

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

	Year Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 9,797,866	$ 9,715,433	$ 6,043,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,100,735	1,858,881	1,698,321
Share based compensation	448,896	39,093	31,571
Deferred taxes	1,695,595	(518,234)	641,574
Impairment loss	1,271,986	—	196,020
Loss/(gain) on sale of assets	27,081	9,238	(39,919)
Excess tax benefit from share based payments	(21,920)	(34,981)	(467)
Changes in assets and liabilities net of effects from acquisitions:			
Trade receivables	3,273,730	(2,521,012)	2,287,237
Inventories	(602,414)	69,693	4,908,760
Prepaid income taxes	(3,600,652)	40,688	(337,274)
Other assets	(78,349)	(52,913)	(10,116)
Accounts payable	(1,025,703)	407,757	827,562
Accrued compensation and benefits	751,925	417,873	1,791,395
Other accrued expenses	395,133	301,376	(263,369)
Income taxes payable	(335,374)	(10,158)	(21,112)
Other	(32,022)	3,092	(116,707)
Net cash provided by operating activities	14,066,513	9,725,826	17,637,121
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,755,991)	(1,794,422)	(3,237,558)
Purchases of investments	(20,884,014)	(20,339,715)	(34,841,042)
Acquisition of business	(3,138,367)		
Proceeds from the sale of fixed assets	22,555	27,783	106,672
Proceeds from the sale of investments	23,635,385	12,808,642	16,099,000
Net cash used in investing activities	(3,120,432)	(9,297,712)	(21,872,928)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid	(5,064,811)	(4,858,484)	(4,332,666)
Mortgage principal payments	(399,209)	(372,926)	(348,373)
Proceeds from issuance of common stock	257,255	307,810	170,626
Excess tax benefit from stock based payments	21,920	34,981	467
Purchase of common stock	—	—	(53,117)
Net cash used in financing activities	(5,184,845)	(4,888,619)	(4,563,063)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(33,084)	(45,385)	140,757
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,728,152	(4,505,890)	(8,658,113)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,787,558	21,293,448	29,951,561
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 22,515,710	$ 16,787,558	$ 21,293,448
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	$ 10,037,938	$ 6,315,827	$ 4,472,507
Interest paid	165,514	201,191	225,883
Dividends declared not paid	1,270,016	1,263,434	1,169,040
Acquisition costs in accrued expenses	1,002,623	—	—

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business: Communications Systems, Inc. (herein collectively called "CSI," "our" or the "Company") is a Minnesota corporation organized in 1969 that 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 and Austin Taylor business units 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 business unit IT solutions including network design, computer infrastructure installations, IT service management, change management, network security and network operations services.

The Company classifies its businesses into four segments: *Suttle*, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; *Transition Networks,* which designs and markets media conversion products, ethernet switches, and other connectivity and data transmission products;*Austin Taylor,* which manufactures British standard line jacks, patch panels, metal boxes, distribution and central office frames; and *JDL Technologies, (JDL*), which provides IT services; non-allocated general and administrative expenses are separately accounted for as "Other" in the Company's segment reporting. There are no material intersegment revenues.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and accounts have been eliminated.

Use of estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company uses estimates based on the best information available in recording transactions and balances resulting from operations. Actual results could differ from those estimates. The Company's estimates consist principally of reserves for doubtful accounts, sales returns, warranty costs, asset impairment evaluations, accruals for compensation plans, self-insured medical and dental accruals, pension liabilities, lower of cost or market inventory adjustments, provisions for income taxes and deferred taxes and depreciable lives of fixed assets.

Cash equivalents: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2011, the Company had $22.5 million in cash and cash equivalents. Of this amount, $0.8 million was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the federal deposit insurance company (FDIC) or other government agency. These money market funds seek to preserve the value of the investment at $1.00 per share; however, it is possible to lose money investing in these funds. The remainder is operating cash and certificates of deposit which are fully insured through the FDIC.

Investments: Investments consist of certificates of deposit that are traded on the open market and are classified as available-for-sale at December 31, 2011. Available-for-sale investments are reported at fair value with unrealized gains and losses excluded from operations and reported as a separate component of stockholders' equity, net of tax (see Accumulated Comprehensive income below).

Inventories: Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Provision to reduce inventories to the lower of cost or market is made based on a review of excess and obsolete inventories, estimates of future sales, examination of historical consumption rates and the related value of component parts.

Property, plant and equipment: Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method. Depreciation included in cost of sales and selling, general and administrative expenses for continuing operations was $2,058,000, $1,859,000 and $1,698,000 for 2011, 2010 and 2009, respectively. Maintenance and repairs are charged to operations and additions or improvements are capitalized. Items of property sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses on disposal are reflected in operations.

Goodwill and Other Intangible Assets: Goodwill represents the amount by which the purchase prices (including liabilities assumed) of acquired businesses exceed the estimated fair value of the net tangible assets and separately identifiable assets of these businesses. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. The Company reassesses the value of our reporting units and related goodwill balances at the end of each fiscal year and at other times if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable.

Recoverability of long-lived assets: The Company reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. If the sum of the expected future net cash flows is less than the carrying value, an impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset.

Warranty: The Company reserves for the estimated cost of product warranties at the time revenue is recognized. We estimate the costs of our warranty obligations based on our warranty policy or applicable contractual warranty, historical experience of known product failure rates, and use of materials and service delivery costs incurred in correcting product failures. Management reviews the estimated warranty liability on a quarterly basis to determine its adequacy.

The following table presents the changes in the Company's warranty liability for the years ended December 31, 2011 and 2010, which relate to normal product warranties and a five-year obligation to provide for potential future liabilities for certain network equipment sales:

	Year Ended December 31	
	2011	2010
Beginning balance	$ 616,000	$ 648,000
Amounts charged to expense	258,000	162,000
Actual warranty costs paid	(240,000)	(194,000)
Ending balance	$ 634,000	$ 616,000

Accumulated Comprehensive income: The components of accumulated other comprehensive income are as follows:

	December 31	
	2011	2010
Foreign currency translation	$ (337,597)	$ (1,272,530)
Unrealized gain on available-for-sale investments	(2,633)	14,058
Minimum pension liability	447,836	972,836
	$ 107,606	$ (285,636)

The functional currency of Austin Taylor and Patapsco is the British pound. Assets and liabilities denominated in this foreign currency were translated into U.S. dollars at year-end exchange rates. Revenue and expense transactions were translated using average exchange rates. Suttle Costa Rica and Transition China use the U.S. dollar as its functional currency.

Revenue recognition: The Company's manufacturing operations (Suttle, Transition Networks and Austin Taylor) recognize revenue when the earnings process is complete, evidenced by persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Revenue is recognized for domestic and international sales at the shipping point or delivery to customers, based on the related shipping terms. Risk of loss transfers at the point of shipment or delivery to customers, and the Company has no further obligation after such time. Sales are made directly to customers and through distributors. Payment terms for distributors are consistent with the terms of the Company's direct customers. The Company records a provision for sales returns, sales incentives and warranty costs at the time of the sale based on historical experience and current trends.

JDL Technologies generally records revenue on hardware, software and related equipment sales and installation contracts when the revenue recognition criteria are met and products are installed and accepted by the customer. JDL records revenue on service contracts on a straight-line basis over the contract period, unless evidence suggests the revenue is earned in a different pattern. Each contract is individually reviewed to determine when the earnings process is complete.

Research and development: Research and development costs consist of outside testing services, equipment and supplies associated with enhancing existing products and developing new products. Research and development costs are expensed when incurred and totaled $2,045,000 in 2011, $2,127,000 in 2010 and $1,707,000 in 2009.

Net income per share: Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share adjusts for the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options and unvested shares, which resulted in a dilutive effect of 47,261 shares, 30,324 shares and 12,519 shares in 2011, 2010 and 2009, respectively. The Company calculates the dilutive effect of outstanding options and unvested shares using the treasury stock method. The number of shares not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of common stock during the year for 2011, 2010, and 2009 was 0, 0 and 81,000, respectively.

Share based compensation: The Company accounts for share based compensation awards on a fair value basis. The estimated grant date fair value of each stock-based award is recognized in income over the requisite service period (generally the vesting period). The estimated fair value of each option is calculated using the Black-Scholes option-pricing model.

NOTE 2 - INVENTORIES

Inventories consist of:

	December 31	
	2011	2010
Finished goods	$ 14,010,071	$ 13,684,884
Raw and processed materials	11,975,932	10,814,051
	$ 25,986,003	$ 24,498,935

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and the estimated useful lives are as follows:

	Estimated useful life	December 31	
		2011	2010
Land		$ 3,114,330	$ 3,099,988
Buildings and improvements	7-40 years	8,779,969	8,449,395
Machinery and equipment	3-15 years	23,266,325	21,889,116
Furniture and fixtures	5-10 years	3,966,579	3,569,720
Construction in progress		515,095	—
		39,642,298	37,008,219
Less accumulated depreciation		(25,623,279)	(23,794,152)
		$ 14,019,019	$ 13,214,067

NOTE 4 – ACQUISITION

On July 27, 2011, the Company acquired Patapsco Designs Limited of the UK ("Patapsco"). The purchase price totals $5,094,000, with cash acquired totaling $862,000. The purchase price includes initial consideration of $3,271,000, deferred consideration of $466,000 to be paid out no later than 18 months from the acquisition date, $656,000 in working capital adjustments, and $701,000 in contingent consideration. The Company has agreed to pay consideration up to $818,000 contingent upon the Patapsco business meeting gross margin and other non-financial targets, with the consideration to paid out no later than two years from the acquisition date. Although the maximum contingent consideration is $818,000, the Company has recognized $701,000 as the estimated fair value of the contingent consideration at the date of acquisition. This contingent consideration has been calculated based on the exchange rate at the date of acquisition and actual payments may differ based on fluctuations in the exchange rate between the dollar and the pound. At December 31, 2011, the Company had estimated liabilities of $1,003,000 related to outstanding consideration payments.

The assets and liabilities of Patapsco were recorded in the consolidated balance sheet within the Transition Networks' segment as of the acquisition date, at their respective fair values. The purchase price allocation is based on the estimated fair value of assets acquired and liabilities assumed and has been allocated as follows:

	July 27, 2011
Current assets	$ 2,052,149
Property, plant, and equipment	163,671
Intangible assets	801,488
Goodwill	2,702,340
Total assets	5,719,648
Current liabilities	$ 414,735
Long-term deferred tax liabilities	210,952
Total liabilities	625,687
Net assets acquired	$ 5,093,961

Identifiable intangible assets are definite-lived assets. These assets include customer relationships, trademarks, and technology intangible assets, and have a weighted average amortization period of 8 years, which matches the weighted average useful life of the assets. Goodwill recorded as part of the purchase price allocation is not tax deductible.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 by segment are as follows:

	Suttle	Transition Networks	Total
January 1, 2010	$ 1,271,986	$ 3,288,231	$ 4,560,217
			—
December 31, 2010	1,271,986	3,288,231	4,560,217
Impairment loss	(1,271,986)	—	(1,271,986)
Acquisition	—	2,702,340	2,702,340
December 31, 2011	$ —	$ 5,990,571	$ 5,990,571
Gross goodwill	$ 1,271,986	$ 5,990,571	$ 7,262,557
Accumulated impairment loss	$ (1,271,986)	0	(1,271,986)
Balance at December 31, 2011	$ —	$ 5,990,571	$ 5,990,571

During our fiscal quarter ended June 30, 2011, based on greater than expected decline in actual and forecasted profitability of legacy products in our Suttle business unit, as well as, significant project delays that occurred related to Suttle's new technologies, we concluded that that these events and circumstances were indicators to require us to perform an interim goodwill impairment analysis of our Suttle business unit. This analysis included the determination of the reporting unit's fair value primarily using discounted cash flows modeling. Based on the step one and step two analysis, considering Suttle's reduced earnings and cash flow forecasts, the Company determined that Suttle's goodwill was fully impaired and recorded a goodwill impairment for the Suttle segment of $1,272,000. This non-recurring fair value measurement is a "Level 3" measurement under the fair value hierarchy described in Note 12.

The Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and were as follows:

	December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Trademarks	81,785	(4,599)	(4,520)	72,666
Customer relationships	490,707	(19,316)	(27,114)	444,277
Technology	228,996	(18,029)	(12,652)	198,315
	801,488	(41,944)	(44,286)	715,258

Amortization expense on these identifiable intangible assets was $42,000 in 2011. The amortization expense is included in selling, general and administrative expenses.

NOTE 6 - EMPLOYEE RETIREMENT BENEFITS

The Company has an Employee Savings Plan (401(k)) and matches a percentage of employee contributions up to six percent of compensation. Contributions to the plan in 2011, 2010 and 2009 were $479,000, $456,000, and $420,000, respectively.

The Company's U.K.-based subsidiary Austin Taylor maintains defined benefit pension plans that cover approximately seven active employees. The Company does not provide any other post-retirement benefits to its employees. The following table summarizes the balance sheet impact, including benefit obligations, assets and funded status of Austin Taylor's pension plans at December 31, 2011 and 2010:

	2011	2010
Change in benefit obligation:		
Benefit obligation at the beginning of the year	$ 4,919,000	$ 4,623,000
Service cost	36,000	46,000
Interest cost	239,000	257,000
Participant contributions	15,000	19,000
Augmentations	46,000	—
Actuarial (gains)/losses	62,000	254,000
Benefits paid	(162,000)	(147,000)
Foreign currency gains	(5,000)	(133,000)
Benefit obligation at the end of the year	5,150,000	4,919,000
Change in plan assets:		
Fair value of plan assets at beginning of year	5,269,000	5,023,000
Actual return on plan assets	892,000	464,000
Employer contributions	48,000	54,000
Participant contributions	15,000	19,000
Benefits paid	(162,000)	(147,000)
Foreign currency losses	(6,000)	(144,000)
Fair value of plan assets at end of year	6,056,000	5,269,000
Funded status at end of year – net asset /(liability)	$ 906,000	$ 350,000

	2011	2010
Weighted average assumptions used to determine net periodic pension costs:		
Discount rate	4.7%	5.5%
Expected return on assets	4.2%	5.1%

The plans are funded through UK government gilts and an insurance contract both recorded in the financial statements at fair value. The related amounts for each of these investments were $3,193,000 and $2,864,000 as of December 31, 2011 and were determined to be level 2 and level 3 investments, respectively. Level 2 investments are valued based on observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active. Level 3 investments are valued based on significant unobservable inputs.

The Company does not expect any plan assets to be returned to the Company during the twelve months subsequent to December 31, 2011.

The Company expects to make contributions of $48,000 to the plan in 2012.

The Company estimates its future pension benefit payments will be as follows:

2012	$ 351,000
2013	280,000
2014	471,000
2015	252,000
2016	227,000
2017 thru 2021	2,043,000

Components of the Company's net periodic pension costs are:

	2011	2010	2009
Service cost	$ 36,000	$ 46,000	$ 37,000
Interest cost	240,000	258,000	261,000
Expected return on assets	(267,000)	(244,000)	(226,000)
Amortization of prior service cost	46,000	—	—
Net periodic pension cost	$ 55,000	$ 60,000	$ 72,000

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Operating leases: The Company leases land, buildings and equipment under operating leases with original terms from 1 to 5 years. Total rent expense was $421,000, $402,000 and $440,000 in 2011, 2010 and 2009 respectively. Sublease income received was $0, $8,000 and $12,000 in 2011, 2010 and 2009 respectively. At December 31, 2011, the Company was obligated under noncancelable operating leases to make minimum annual future lease payments as follows:

Year Ending December 31:	
2012	$ 175,000
2013	7,000
Thereafter	—
	$ 182,000

Long-term debt: The mortgage on the Company's headquarters building is payable in monthly installments and carries an interest rate of 6.83%. The mortgage matures on March 1, 2016. The outstanding balance on the mortgage was $2,002,000 at December 31, 2011. The mortgage is secured by the building.

The annual requirements for principal payments on the mortgage are as follows:

2012	427,000
2013	457,000
2014	490,000
2015	524,000
2016	104,000

Purchasing obligations: On September 30, 2011, the Company entered into a contract with IFS to implement a new Enterprise Resource Planning (ERP) system. The remaining contract balance at December 31, 2011 was $739,000. The contract includes annual future obligations for the years ending December 31, as follows:

2012	$ 532,000
2013	207,000

Line of credit: The Company has a $10,000,000 line of credit from Wells Fargo Bank. The Company had no outstanding borrowings against the line of credit at December 31, 2011 and 2010 and the entire credit line is available for use. Interest on borrowings on the credit line is at LIBOR plus 1.1% (1.7% at December 31, 2011). The credit agreement expires October 31, 2013 and is secured by assets of the Company. Our credit agreement contains financial covenants including current ratio, net income, and tangible net worth minimums. The Company was in compliance with all financial covenants as of December 31, 2011.

As of December 31, 2011, the Company had no other material commitments (either cancelable or non-cancelable) for capital expenditures or other purchase commitments related to ongoing operations.

Long-term compensation plans: The Company has a long term incentive plan. The plan provides long-term competitive compensation to enable the Company to attract and retain qualified executive talent and to reward employees for achieving goals and improving company performance. The plan provides grants of “performance units” made at the beginning of performance periods and paid at the end of the period if performance goals are met. Awards were previously made every other year and are paid following the end of the cycle with annual vesting. Payment in the case of retirement, disability or death will be on a pro rata basis. The Company accrued expense of $286,000, $926,000 and $734,000 in 2011, 2010 and 2009, respectively. Accrual balances for long-term compensation plans at December 31, 2011 and 2010 were $2,024,000 and $1,738,000, respectively. Awards paid were $0 in 2011, $1,332,000 in 2010 and $0 in 2009. Awards for the 2008 to 2011 cycle will be paid out in 2012 in cash, awards for the 2010 to 2013 and the 2011 to 2013 cycles will be paid out 50% in cash and 50% in stock. The stock portion of these awards are treated as equity plans and included within the Stock Compensation footnote below.

Other contingencies: In the ordinary course of business, the Company is exposed to legal actions and claims and incurs costs to defend against such actions and claims. Company management is not aware of any outstanding or pending legal actions or claims that would materially affect the Company’s financial position or results of operations.

NOTE 8 – STOCK COMPENSATION

2011 Executive Incentive Compensation Plan

On March 28, 2011 the Board adopted and on May 19, 2011 the Company’s shareholders approved the Company’s 2011 Executive Incentive Compensation Plan (“2011 Incentive Plan”). The 2011 Incentive Plan authorizes incentive awards to officers, key employees and non-employee directors in the form of options (incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, performance stock units (“deferred stock”), performance cash units, and other awards in stock, cash, or a combination of stock and cash. Up to 1,000,000 shares of our common stock may be issued pursuant to awards under the 2011 Incentive Plan. The 2011 Incentive Plan is administered by the Compensation Committee of the Board of Directors. Through December 31, 2011, the only awards that have been made under the 2011 Incentive Plan are those described in following paragraphs.

The 2011 Incentive Plan permits equity awards to non-employee directors either in the form of restricted stock grants or non-qualified stock option awards, or both. On March 28, 2011, the Compensation Committee and the Board determined that, subject to receiving shareholder approval of the 2011 Incentive Plan, each non-employee director elected or re-elected at the May 19, 2011 Annual Shareholders Meeting (the “2011 Shareholders Meeting”) would be issued shares of restricted stock having a value of $40,000 based on the closing price of the Company’s common stock on May 19, 2011 and also determined this restricted stock would vest after one year and be subject to restrictions on resale for one additional year. At the 2011 Shareholders Meeting, the Company’s shareholders approved the 2011 Incentive Plan and, effective as of that date, the Company awarded 2,226 shares of restricted stock to each of the Company’s six non-employee directors for a total of 13,356 shares. In addition, on August 11, 2011, the Company’s Board awarded a 2,226 share restricted stock grant to the Company’s former chief executive officer, who began service as a non-employee director after retiring as chief executive officer on May 19, 2011.

At December 31, 2011, 984,418 shares remained available to be issued under the 2011 Incentive Plan.

Stock Option Plan for Directors

Shares of common stock are reserved for issuance to non-employee directors under options granted by the Company prior to 2011 under its Stock Option Plan for Non-Employee Directors (the “Director Plan”). Under the Director Plan nonqualified stock options to acquire 3,000 shares of common stock were automatically granted to each non-employee director concurrent with annual meetings of shareholders in 2010 and earlier years and vested immediately. The exercise price of options granted was the fair market value of the common stock on the date of the respective shareholder meetings. Options granted under the Director Plan expire 10 years from date of grant.

The Director Plan was suspended as of May 19, 2011 to prohibit automatic option grants in 2011 in connection with seeking and receiving shareholder approval of the 2011 Incentive Plan, at the 2011 Annual Meeting of Shareholders. As shareholder approval was received, the Board amended the Director Plan to prohibit any future option awards under that plan on August 11, 2011. Stock options were granted to non-employee directors for 0, 18,000, and 18,000 shares in 2011, 2010 and 2009, respectively.

Stock Plan

Under the Company's 1992 Stock Plan ("the Stock Plan"), shares of common stock may be issued pursuant to stock options, restricted stock or deferred stock grants to officers and key employees. Exercise prices of stock options under the Stock Plan cannot be less than fair market value of the stock on the date of grant. Rules and conditions governing awards of stock options, restricted stock and deferred stock are determined by the Compensation Committee of the Board of Directors, subject to certain limitations in the Stock Plan. When seeking approval of the 2011 Incentive Plan at the 2011 Shareholders Meeting, the Company committed to amending the Stock Plan to prohibit the issuance of future equity awards if such approval was given. Effective August 11, 2011, the amendment to prohibit future stock options or other equity awards was approved.

During 2011, prior to amending the Stock Plan to prohibit future awards, stock options were awarded covering 96,250 shares to key executive employees, which options expire seven years from the date of award and vest 25% each year beginning one year after the date of award.

During 2011, prior to amending the Stock Plan to prohibit future awards, key employees were granted deferred stock awards covering 16,092 shares tied to achievement against performance goals in 2010 under the Company's long term incentive plan. To the extent earned, the deferred stock will be paid out in the first quarter of 2014 to key employees still employed by the Company at that time. The Company also granted deferred stock awards covering 77,588 shares to key employees under the Company's long term incentive plan tied to achievement against performance over the 2011 to 2013 period. The actual number of shares of deferred stock earned by the respective employees, if any, will be determined based on achievement against cumulative performance goals for the three years ending December 31, 2013 and the number of shares earned will be paid in the first quarter of 2014 to those key employees still employed by the Company at that time. During 2011, the Company also granted deferred stock awards of up to 12,156 shares to executive employees that could be earned under the Company's short-term incentive plan if actual revenue equaled or exceeded 150% of 2011 quarterly or annual revenue targets. The number of shares earned by the respective executive employees will be paid out no later than the first quarter of 2012.

At December 31, 2011 after reserving for stock options and deferred stock awards described in the two preceding paragraphs and adjusting for forfeitures and issuances during the year, there were 162,243 shares reserved for issuance under the Stock Plan. The Company did not award stock options or deferred stock under this plan in 2010 or 2009.

Stock Options Outstanding

The following table summarizes changes in the number of outstanding stock options under the Director Plan and Stock Plan during the three years ended December 31, 2011.

	Options	Weighted average exercise price per share	Weighted average remaining contractual term
Outstanding – December 31, 2008	351,350	$ 9.99	2.78 years
Awarded	18,000	9.73	
Exercised	(6,400)	10.71	
Forfeited	(173,950)	10.18	
Outstanding – December 31, 2009	189,000	$ 9.77	4.75 years
Awarded	18,000	11.82	
Exercised	(21,000)	8.70	
Forfeited	(24,000)	14.13	
Outstanding – December 31, 2010	162,000	$ 9.49	5.33 years
Awarded	96,250	14.16	
Exercised	(9,000)	8.10	
Forfeited	(12,430)	11.23	
Outstanding – December 31, 2011	236,820	11.35	5.18 years
Exercisable at December 31, 2011	164,635	$ 10.12	4.73 years
Expected to vest at December 31, 2011	235,801	11.34	5.17 years

The fair value of awards issued under the Company's stock option plan is estimated at grant date using the Black-Scholes option-pricing model. The following table displays the assumptions used in the model.

	Year Ended December 31		
	2011	2010	2009
Expected volatility	27.7%	27.3%	28.3%
Risk free interest rate	3.4%	3.7%	3.4%
Expected holding period	6 years	7 years	7 years
Dividend yield	4.2%	4.7%	4.9%

Total unrecognized compensation expense was $102,000, $0, and $0 for the years ending December 31, 2011, 2010 and 2009, respectively, which is expected to be recognized over the next 3.2 years. The aggregate intrinsic value of all outstanding options, exercisable options, and options expected to vest (the amount by which the market price of the stock on the last day of the period exceeded the market price of the stock on the date of grant) was $651,000 based on the Company's stock price at December 31, 2011. The intrinsic value of options exercised during the year was $61,000, $183,000 and $30,000 in 2011, 2010 and 2009, respectively. Net cash proceeds from the exercise of all stock options were $73,000, $0 and $30,000 for 2011, 2010 and 2009, respectively. The following table summarizes the status of stock options outstanding at December 31, 2011:

Range of Exercise Prices	Shares	Weighted Average Remaining Option Life	Weighted Average Exercise Price
$7.13 to $8.64	45,000	1.4 years	$ 7.59
$8.65 to $9.99	33,000	6.0 years	9.67
$10.00 to $12.00	69,000	5.9 years	10.95
$12.01 to $14.50	89,820	6.2 years	14.16

The Company receives an income tax benefit related to the gains received by officers and key employees who make disqualifying dispositions of stock received on exercise of qualified incentive stock options and on non-qualified options. The amount of tax benefit received by the Company was $22,000, $35,000 and $0 in 2011, 2010 and 2009 respectively. The tax benefit amounts have been credited to additional paid-in capital.

Deferred Stock Outstanding

The following table summarizes the changes in the number of deferred stock shares under the Stock Plan and 2011 Incentive Plan over the period December 31, 2010 to December 31, 2011:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2010	—	$ —
Granted	105,836	15.15
Vested	(2,657)	15.40
Forfeited	(31,330)	15.27
Outstanding – December 31, 2011	71,849	15.14

The grant date fair value is calculated based on the Company's closing stock price as of the grant date. As of December 31, 2011, the total unrecognized compensation expense related to the deferred stock shares was $302,000 and is expected to be recognized over a weighted-average period of 2 years.

Compensation Expense

Share-based compensation expense is recognized based on the fair value of awards granted over the vesting period of the award. Share-based compensation expense recognized for 2011, 2010 and 2009 was $449,000, $39,000 and $32,000 before income taxes and $292,000, $25,000 and $20,000 after income taxes, respectively. Share-based compensation expense is recorded as a part of selling, general and administrative expenses.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP") employees are able to acquire shares of common stock at 90% of the price at the end of each current quarterly plan term. The most recent term ended December 31, 2011. The ESPP is considered compensatory under current rules. At December 31, 2011, after giving effect to the shares issued as of that date, 66,413 shares remain available for purchase under the ESPP.

Employee Stock Ownership Plan (ESOP)

All eligible employees of the Company participate in the ESOP after completing one year of service. Contributions are allocated to each participant based on compensation and vest 30% after three years of service and incrementally thereafter, with full vesting after seven years. At December 31, 2011, the ESOP held 531,137 shares of the Company's common stock, all of which have been allocated to the accounts of eligible employees. Contributions to the plan are determined by the Board of Directors and can be made in cash or shares of the Company's stock. The 2011 ESOP contribution was $508,199 for which the Company issued 36,145 shares in March 2012. The 2010 ESOP contribution was $316,027 for which the Company issued 22,493 shares in 2011. The Company's 2009 ESOP contribution was $471,563 for which the Company issued 37,907 shares of common stock to the ESOP in 2010.

NOTE 9 – COMMON STOCK

PURCHASES OF COMMUNICATIONS SYSTEMS, INC. COMMON STOCK

In October 2008, the Company's Board of Directors authorized the repurchase of shares of the Company's stock pursuant to Exchange Act Rule 10b-18 on the open market, in block trades or in private transactions. At December 31, 2011, 481,938 additional shares could be repurchased under outstanding Board authorizations.

SHAREHOLDER RIGHTS PLAN

On December 23, 2009 the Board of Directors adopted a shareholders' rights plan. Under this plan, the Board of Directors declared a distribution of one right per share of common stock. Each right entitles the holder to purchase 1/100th of a share of a new series of Junior Participating Preferred Stock of the Company at an initial exercise price of $41. The rights expire on December 23, 2019. The rights will become exercisable only following the acquisition by a person or group, without the prior consent of the Board of Directors, of 16.5% or more of the Company's voting stock, or following the announcement of a tender offer or exchange offer to acquire an interest of 16.5% or more. If the rights become exercisable, each rightholder will be entitled to purchase, at the exercise price, common stock with a market value equal to twice the exercise price. Should the Company be acquired, each right would entitle the holder to purchase, at the exercise price, common stock of the acquiring company with a market value equal to twice the exercise price. Any rights owned by the acquiring person or group would become void.

NOTE 10 - INCOME TAXES

Income tax expense from continuing operations consists of the following:

	Year Ended December 31		
	2011	2010	2009
Currently payable income taxes:			
Federal	$ 5,609,000	$ 5,906,000	$ 3,766,000
State	414,000	581,000	362,000
Foreign	103,000	(50,000)	(14,000)
	6,126,000	6,437,000	4,114,000
Deferred income taxes (benefit):			
Federal	$ 1,204,000	$ (522,000)	$ 551,000
State	72,000	(10,000)	37,000
Foreign	420,000	14,000	54,000
	1,696,000	(518,000)	642,000
	$ 7,822,000	$ 5,919,000	$ 4,756,000

Austin Taylor Communications, Ltd. operates in the United Kingdom (U.K.) and is subject to U.K. rather than U.S. income taxes. Austin Taylor had pretax losses of $1,474,000, $1,119,000 and $1,252,000 in 2011, 2010 and 2009 respectively. At the end of 2011, Austin Taylor's net operating loss carry-forward was $6,986,000. $56,000 of the 2011 pretax loss will provide group relief to Patapsco, a U.K. company acquired by Communications Systems, Inc. during 2011. The Company remains uncertain that it will be able to generate the future income needed to realize the tax benefit of the carry-forward. Accordingly, the Company has continued to maintain its deferred tax valuation allowance against the potential carry-forward benefit.

In 2007, Transition Networks China began operations in China and is subject to Chinese taxes rather than U.S. income taxes. Transition Networks China had pretax income of $24,000 in 2011 and pretax losses of $115,000 and $190,000 in 2010 and 2009 respectively. At the end of 2011, Transition Networks China's net operating loss carry-forward was $1,730,000. Due to the history of losses in China the Company remains uncertain that it will be able to generate the future income needed to realize the tax benefit of the carry-forward. Accordingly, the Company has continued to maintain its deferred tax valuation allowance against the potential carry-forward benefit.

Suttle Costa Rica, S.A. operates in Costa Rica and is subject to Costa Rica income taxes. In 2005, the Board of Directors of Suttle Costa Rica S. A. declared a dividend in the amount of $3,500,000 payable to the Company. The dividend and related "dividend reinvestment plan" qualify under Internal Revenue Code Sec. 965, which allows the Company to receive an 85% dividend received deduction if the amount of the dividend is reinvested in the United States pursuant to a domestic reinvestment plan. The Company made the required qualified capital expenditures in 2006. It is the Company's intention to maintain the remaining undistributed earnings in its Costa Rica subsidiary to support continued operations there. No deferred taxes have been provided for the undistributed earnings.

Suttle Costa Rica had pretax income of $155,000 and $80,000 in 2011 and 2010 respectively and pretax loss of $519,000 in 2009. At the end of 2011, Suttle Costa Rica's net operating loss carry-forward was $519,000. The Costa Rican tax authorities may allow losses to be carried forward to future periods at their discretion. The Company believes that it is unlikely that the Costa Rican tax authorities would grant the request to defer the prior years' net operating losses to future periods. Therefore, the Company has placed a deferred tax valuation allowance against the potential carry-forward benefit.

The provision for income taxes for continuing operations varied from the federal statutory tax rate as follows:

	Year Ended December 31		
	2011	2010	2009
Tax at U.S. statutory rate	35.0%	35.0%	35.0%
Surtax exemption	(0.3)	(0.6)	(0.9)
State income taxes, net of federal benefit	1.9	2.4	2.5
Foreign income taxes, net of foreign tax credits	4.7	2.7	4.9
Impairment of goodwill	2.5	—	—
Other	.6	(1.6)	2.5
Effective tax rate	44.4%	37.9%	44.0%

Deferred tax assets and liabilities as of December 31 related to the following:

	2011	2010
Deferred tax assets:		
Allowance for doubtful accounts	$ 58,000	$ 184,000
Inventory	2,611,000	3,347,000
Accrued and prepaid expenses	762,000	939,000
Domestic net operating loss carry-forward	186,000	265,000
Long-term compensation plans	298,000	338,000
Nonemployee director stock compensation	128,000	71,000
Other stock compensation	122,000	—
State income taxes	63,000	58,000
Foreign net operating loss carry-forwards and credits	2,625,000	2,660,000
Gross deferred tax assets	6,853,000	7,862,000
Valuation allowance	(2,624,000)	(2,216,000)
Net deferred tax assets	4,229,000	5,646,000
Deferred tax liabilities		
Depreciation	(1,577,000)	(1,373,000)
Intangible assets	(674,000)	(388,000)
Gross deferred tax liability	(2,251,000)	(1,761,000)
Total net deferred tax asset	$ 1,978,000	$ 3,885,000

As part of previous acquisitions, the Company purchased net operating loss carry-forwards in the amount of $3,790,000. At December 31, 2011, the Company had $531,000 remaining net operating loss carry-forwards for income tax purposes which expire in 2014. Utilization of net operating loss carry-forwards is limited to $228,000 per year in future years.

The Company assesses uncertain tax positions in accordance with ASC 740. Under this method, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such uncertain tax positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense.

Changes in the Company's unrecognized tax benefits are summarized as follows:

	2011	2010	2009
Unrecognized tax benefits – January 1	$ 270,000	$ 349,000	$ 380,000
Gross increases - tax positions in prior period	0	0	0
Gross decreases - tax positions in prior period			
Gross increases - current period tax positions	7,000	7,000	66,000
Expiration of statute of limitations	(43,000)	(86,000)	(97,000)
Unrecognized tax benefits – December 31, 2011	$ 234,000	$ 270,000	$ 349,000

Included in the balance of unrecognized tax benefits at December 31, 2011 are $342,000 of tax benefits that if recognized would affect the tax rate. The Company's unrecognized tax benefits could be reduced by $81,000 in the next twelve months due to statute of limitations expirations. The Company's income tax liability accounts included accruals for interest and penalties of $172,000 at December 31, 2011. The Company's 2011 income tax expense was decreased by $236,000 due to net decreases for accrued interest and penalties.

The Company's federal and state tax returns and tax returns it has filed in Costa Rica and the United Kingdom are open for review going back to the 2008 tax year. Puerto Rico has no statute of limitations on tax returns.

NOTE 11- INFORMATION CONCERNING INDUSTRY SEGMENTS AND MAJOR CUSTOMERS

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Transition Networks, which designs and markets data transmission, computer network and media conversion products and print servers; JDL Technologies, (JDL), which provides IT services; and Austin Taylor which manufactures British standard telephone equipment and equipment enclosures for the U.K and international markets. Non-allocated corporate general and administrative expenses are categorized as "Other" in the Company's segment reporting. Management has chosen to organize the enterprise and disclose reportable segments based on products and services. There are no material intersegment revenues.

Suttle products are sold principally to U.S. customers. Suttle operates manufacturing facilities in the U.S. and Costa Rica. Net long-lived assets held in foreign countries were approximately $831,000 and $506,000 at December 31, 2011 and 2010, respectively. Transition Networks manufactures its products in the United States and makes sales in both the U.S. and international markets. JDL Technologies operates in the U.S. and makes sales in the U.S. Austin Taylor operates a manufacturing facility in the U.K. and makes sales in the U.K. and internationally. Consolidated sales to U.S. customers were approximately 85%, 81% and 82% of sales from continuing operations in 2011, 2010 and 2009 respectively. In 2011, sales to one of Transition Networks' customers accounted for 22.8% of consolidated sales. In 2010, sales to two of Transition Networks' customers accounted for 15.1% and 12.0% of consolidated sales and one of JDL Technologies' customers accounted for 10.3% of consolidated sales. In 2009, sales to one of Transition Networks' customers accounted for 16.7% of consolidated sales and one of Suttle's customers accounted for 12.2% of consolidated sales.

Information concerning the Company's operations in the various segments for the twelve-month periods ended December 31, 2011, 2010 and 2009 is as follows:

	Suttle	Transition Networks	JDL Technologies	Austin Taylor	Other	Total
2011						
Sales	$ 36,636,915	$ 91,450,014	$ 12,400,553	$ 3,287,569	$ —	$ 143,775,051
Cost of sales	27,365,489	46,825,149	7,262,006	3,427,280	—	84,879,924
Gross profit	9,271,426	44,624,865	5,138,547	(139,711)	—	58,895,127
Selling, general and administrative expenses	6,897,672	23,730,729	1,982,353	1,320,094	6,177,373	40,108,221
Impairment	1,271,986		—	—		1,271,986
Operating income (loss)	$ 1,101,768	$ 20,894,136	$ 3,156,194	$ (1,459,805)	$ (6,177,373)	$ 17,514,920
Depreciation and amortization	$ 906,004	$ 755,789	$ 106,622	$ 40,252	$ 292,068	$ 2,100,735
Capital expenditures	$ 935,030	$ 1,028,941	$ 51,789	$ —	$ 740,231	$ 2,755,991
Assets	$ 25,512,978	$ 33,589,083	$ 1,844,572	$ 2,401,323	$ 53,310,960	$ 116,658,916

	Suttle	Transition Networks	JDL Technologies	Austin Taylor	Other	Total
2010						
Sales	$ 36,561,669	$ 67,782,482	$ 12,712,244	$ 3,015,915	$ —	$ 120,072,310
Cost of sales	26,880,667	31,826,169	7,132,263	3,032,579	—	68,871,678
Gross profit	9,681,002	35,956,313	5,579,981	(16,664)	—	51,200,632
Selling, general and administrative expenses	6,638,163	21,459,214	1,470,086	1,084,345	4,934,440	35,586,248
Impairment						—
Operating income (loss)	$ 3,042,839	$ 14,497,099	$ 4,109,895	$ (1,101,009)	$ (4,934,440)	$ 15,614,384
Depreciation and amortization	$ 830,986	$ 604,873	$ 102,850	$ 25,194	$ 294,978	$ 1,858,881
Capital expenditures	$ 741,820	$ 680,819	$ 197,784	$ 9,854	$ 164,145	$ 1,794,422
Assets	$ 19,357,569	$ 32,383,709	$ 3,493,717	$ 2,406,939	$ 51,428,293	$ 109,070,227

	Suttle	Transition Networks	JDL Technologies	Austin Taylor	Other	Total
2009						
Sales	$ 42,866,947	$ 55,098,346	$ 8,765,415	$ 3,061,499	$ —	$ 109,792,207
Cost of sales	33,095,673	25,768,865	6,011,918	3,067,101	—	67,943,557
Gross profit	9,771,274	29,329,481	2,753,497	(5,602)	—	41,848,650
Selling, general and administrative expenses	6,054,170	19,371,120	1,298,790	1,012,194	3,697,823	31,434,097
Impairment				196,020		196,020
Operating income (loss)	$ 3,717,104	$ 9,958,361	$ 1,454,707	$ (1,213,816)	$ (3,697,823)	$ 10,218,533
Depreciation and amortization	$ 651,407	$ 579,816	$ 155,744	$ 76,495	$ 234,859	$ 1,698,321
Capital expenditures	$ 2,667,916	$ 355,129	$ 37,026	$ 114,153	$ 63,334	$ 3,237,558
Assets	$ 21,110,624	$ 29,640,360	$ 1,548,930	$ 4,044,746	$ 46,569,034	$ 102,913,694

NOTE 12 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing that have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

The Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011 and December 31, 2010, respectively, include money market funds within cash equivalents of $830,000 and $9,624,000 classified as level one within the hierarchy and certificate of deposits within investments of $23,519,000 and $26,287,000 classified as level two. The Company does not have any assets or liabilities classified as level three within the hierarchy, other than the pension assets already discussed in Note 6.

NOTE 13 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of this filing. We do not believe there are any material subsequent events which would require further disclosure.

(b) SUPPLEMENTAL FINANCIAL INFORMATION

Quarterly Operating Results
(in thousands except per share amounts)
Unaudited

	Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
2011				
Sales	$ 31,023	$ 45,430	$ 41,985	$ 25,337
Gross margins	13,328	18,456	16,555	10,556
Operating income	4,141	7,253	6,484	(363)
Net income	2,558	4,085	3,730	(575)
Basic net income per share	$ 0.30	$ 0.48	$ 0.44	$ (0.07)
Diluted net income per share	$ 0.30	$ 0.48	$ 0.44	$ (0.07)
2010				
Sales	$ 25,882	$ 30,659	$ 33,324	$ 30,207
Gross margins	10,515	13,284	15,310	12,092
Operating income	2,120	4,192	6,304	2,998
Net income	1,331	2,415	3,999	1,970
Basic net income per share	$ 0.16	$ 0.29	$ 0.48	$ 0.23
Diluted net income per share	$ 0.16	$ 0.29	$ 0.48	$ 0.22

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A (T): CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")).

Our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rule and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal control -- Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Operating Effectiveness of Accounting and Control Procedures. As a result of our evaluation, our management concluded that as of December 31, 2011, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management has excluded from its assessment the internal control over financial reporting at Patapsco Designs Limited of the UK, which was acquired on July 27, 2011, and whose financial statements constitute 2.7 percent of total assets, less than one percent of total revenues, and less than one percent of net income from continuing operations on the consolidated financial statement amounts as of and for the year ended December 31, 2011.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. That report is set forth immediately following the report of Deloitte & Touche LLP on the consolidated financial statements included herein.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 under Regulation S-K, to the extent applicable to the Company's directors, will be set forth under the caption "Election of Directors" in the Company's definitive proxy material for its May 22, 2012 Annual Meeting of Shareholders ("2012 Proxy Materials") and is incorporated herein by reference. The information required with respect to the Company's officers by paragraph (b) of Item 401 is set forth under Item 1(c) (3) of this Form 10-K.

The information required by Item 405 regarding compliance with Section 16 (a) will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2012 Proxy Materials, and is incorporated herein by reference.

Code of Ethics

The Company has adopted a Code of Ethics applicable to all officers of the Company as well as certain other key accounting personnel. A copy of the Code of Ethics can be obtained free of charge upon written request directed to the Company's Assistant Secretary at the executive offices of the Company.

The information required called for by Item 407 regarding corporate governance will be set forth under the caption "Corporate Governance and Board Matters" in the 2012 Proxy Materials and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 402 under Regulation S-K, will be set forth under the caption "Executive Compensation" in the Company's 2012 Proxy Materials, and is expressly incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 403 under Regulation S-K will be set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Election of Directors" in the Company's 2012 Proxy Materials, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 404 under Regulation S-K will be set forth under the caption "Certain Relationship and Related Transaction" in the Company's 2012 Proxy Materials, and is incorporated herein by reference.

The information required by Item 407(a) will be set forth in the Company's 2012 Proxy Materials caption "Corporate Governance and Board Matters" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 of Form 10K and 9(e) of Schedule 14A will be set forth under the caption "Principal Accountant Fees and Services" in the Company's 2012 Proxy Materials, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) **Consolidated Financial Statements**

The following Consolidated Financial Statements of Communications Systems, Inc. and subsidiaries appear at pages 29 to 49 herein:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2011 and 2010
- Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2011, 2010 and 2009
- Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009
- Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009
- Notes to Consolidated Financial Statements

(a) (2) **Consolidated Financial Statement Schedule**

The following financial statement schedule is being filed as part of this Form 10-K Report:

Schedule II - Valuation and Qualifying Accounts and Reserves

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(a) (3) **Exhibits**

The exhibits which accompany or are incorporated by reference in this report, including all exhibits required to be filed with this report pursuant to Item 601 of Regulation S-K, including each management or compensatory plan or arrangement are described on the Exhibit Index, which is at pages 56 through 59 of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNICATIONS SYSTEMS, INC.

Dated: March 15, 2012

/s/ William G. Schultz

William G. Schultz, President, Chief Executive Office and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

Each person whose signature appears below constitutes and appoints WILLIAM G. SCHULTZ and DAVID T. MCGRAW as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	Title	Date
/s/William G. Schultz William G. Schultz	President, Chief Executive Officer and Director	March 15, 2012
/s/David T. McGraw David T. McGraw	Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2012
/s/Kristin A. Hlavka Kristin A. Hlavka	Corporate Controller	March 15, 2012
/s/Curtis A. Sampson Curtis A. Sampson	Chairman of the Board of Directors, and Director	March 15, 2012
/s/Randall D. Sampson Randall D. Sampson	Director	March 15, 2012
/s/Edwin C. Freeman Edwin C. Freeman	Director	March 15, 2012
/s/Luella G. Goldberg Luella Gross Goldberg	Director	March 15, 2012
/s/Gerald D. Pint Gerald D. Pint	Director	March 15, 2012
/s/Roger H.D. Lacey Roger H.D. Lacey	Director	March 15, 2012
/s/Jeffrey K. Berg Jeffrey K. Berg	Director	March 15, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 2011

FINANCIAL STATEMENT SCHEDULE

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Schedule II - Valuation and Qualifying Accounts and Reserves

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions from Reserves	Other Changes Add (Deduct)	Balance at End of Period
Allowance for doubtful accounts:					
Year ended:					
December 31, 2011	$ 500,000	$ 91,000	$ (416,000) (A)		$ 175,000
December 31, 2010	$ 505,000	$ 105,000	$ (110,000) (A)		$ 500,000
December 31, 2009	$ 219,000	$ 310,000	$ (24,000) (A)		$ 505,000

(A) Accounts determined to be uncollectible and charged off against reserve.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 2011

EXHIBITS

COMMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Exhibit Index To
Form 10-K for the Year Ended December 31, 2011

Regulation S-K Exhibit Table Reference		Title of Document	Location in Consecutive Numbering System as Filed With the Securities and Exchange Commission
3.1		Articles of Incorporation, as amended	Filed as Exhibit 3.1 to the Form 10-K Report of the Company for its year ended December 31, 1989 (the “1989 Form 10-K”) and incorporated herein by reference.
3.2		Bylaws, as amended	Filed as Exhibit 3.2 to the 1989 Form 10-K and incorporated herein by reference.
3.3		Amended and Restated Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock	Filed as Exhibit 4(a) to Form 8-A dated December 28, 2009 and incorporated herein by reference.
10.1		Credit Agreement dated as of October 28, 2011 between Communications Systems, Inc., JDL Technologies, Inc., Transition Networks, Inc. and Wells Fargo Bank, National Association	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference.
10.2		Revolving Line of Credit Note dated as of October 28, 2011 between Communications Systems, Inc., JDL Technologies, Inc., Transition Networks, Inc. and Wells Fargo Bank, National Association	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference.
10.3	*	Communications Systems, Inc. Employee Stock Ownership Plan and Trust, effective as of January 1, 2009	Filed herewith.
10.3.1	*	First Amendment of the Communications Systems, Inc., Employee Stock Ownership Plan and Trust, entered into on October 21, 2011	Filed herewith.
10.4	*	1990 Employee Stock Purchase Plan, as amended and restated May 19, 2011	Filed as Exhibit 99.4 to the Form 8-K dated May 19, 2011 and incorporated herein by reference.
10.5	*	1990 Stock Option Plan for Nonemployee Directors, as amended May 19, 2011	Filed as Exhibit 10.4 to the Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference.
10.6	*	1992 Stock Plan, as amended August 11, 2011	Filed as Exhibit 10.3 to the Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference.

10.7	*	Supplemental Executive Retirement Plan	Filed as Exhibit 10.8 to the 1993 Form 10-K and incorporated herein by reference.
10.8	*	Communications Systems, Inc. Long Term Incentive Plan, as amended through March 1, 2012	Filed as Exhibit 99.2 to the Company's Form 8-K dated March 9, 2012 and incorporated herein by reference.
10.9	*	Consulting Agreement between the Company and Jeffrey K. Berg dated as of May 19, 2011	Filed as Exhibit 99.1 to the Company's Form 8-K dated May 19, 2011 and incorporated herein by reference.
10.10	*	Communications Systems, Inc. 2011 Executive Compensation Plan	Filed as Exhibit 99.3 to the Form 8-K dated May 19, 2011, and incorporated herein by reference.
10.11	*	Communications Systems, Inc. Annual Bonus Plan	Filed as Exhibit 99.1 to the Company's Form 8-K dated March 9, 2012 and incorporated herein by reference.
10.12		Form of Rights Agreement, dated as of December 23, 2009 between Communications Systems, Inc. and Wells Fargo Bank National Association	Filed as Exhibit 4(b) to Form 8-A on December 28, 2009 and incorporated herein by reference.

* Indicates compensatory plans

COMMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Exhibit Index To
Form 10-K for the Year Ended December 31, 2011

Regulation S-K Exhibit Table Reference	Title of Document	Location in Consecutive Numbering System as Filed With the Securities and Exchange Commission
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Independent Registered Public Accounting Firm	Filed herewith.
24	Power of Attorney	Included in signatures at page 53.
31.1	Certification of Chief Executive Officer	Filed herewith.
31.2	Certification of Chief Financial Officer	Filed herewith.
32	Certification under USC § 1350	§ 1350 Filed herewith.
99.1	Press Release dated March 12, 2012	Filed herewith.

The exhibits referred to in this Exhibit Index will be supplied to a shareholder at a charge of $.25 per page upon written request directed to CSI’s Assistant Secretary at the executive offices of the Company.

Exhibit 10.3

COMMUNICATIONS SYSTEMS, INC.

EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

January 1, 2009

TABLE OF CONTENTS

		Page
ARTICLE 1		
NAME AND PURPOSE		1
1.1	Name	1
1.2	Purpose	2
ARTICLE 2		
DEFINITIONS AND INTERPRETATIONS		2
2.1	General Definitions	2
2.2	Qualifying Employer Securities Definitions	13
2.3	Limitation Definitions	16
2.4	Top Heavy Definitions	17
2.5	Interpretation	20
ARTICLE 3		
PARTICIPATION IN THE PLAN		20
3.1	Eligibility	20
3.2	Designation of Beneficiary	21
3.3	Termination of Participation	22
3.4	Recommencement of Participation	22
3.5	Election Not to Participate	23
ARTICLE 4		
CONTRIBUTIONS		23
4.1	Employer Contributions	23
4.2	Participant Contributions	23
4.3	Rollover Contributions and Trustee to Trustee Transfers	24
4.4	Transfer to Trustee	24
4.5	Reversion to Employer	25
ARTICLE 5		
ALLOCATION OF CONTRIBUTIONS		25
5.1	Certification of Contribution and Compensation	25
5.2	Separate Accounts	25
5.3	Participants Entitled to an Allocation of Employer Contributions	25
5.4	Method of Allocation of Contributions	26
5.5	Allocation Does Not Vest	28
5.6	Valuation of Participant Accounts	28
5.7	Limitations on Allocations	29
ARTICLE 6		
INVESTMENT IN EMPLOYER SECURITIES		31
6.1	Borrowing from Disqualified Persons	31
6.2	Release of Encumbered Employer Securities	32
6.3	Stock Dividends, Splits, Rights, Warrants, Options, and Other Reorganizations	33
6.4	Voting Rights	34
6.5	Tender or Exchange Offers	35

6.6	Diversification of Investment	35
6.7	Restrictions on Buy-Sell Arrangements	36
6.8	Put Option	36
6.9	Right of First Refusal and Call Option	36
6.10	Exercise of Option	37
6.11	Substitute Offeree	38
6.12	Notice	38
6.13	Transfer Restriction	38
6.14	Rights Nonterminable	38
6.15	Independent Appraisal	38
6.16	Employer Securities of S Corporation	38
6.17	Effect of Code and Regulations Nonterminable	40

ARTICLE 7
VESTING 40

7.1	Vesting of Participant Contributions	40
7.2	Vesting of Employer Contributions	40
7.3	Determination of Years of Service	42
7.4	Forfeitures and Restoration of Nonvested Amounts	43

ARTICLE 8
PAYMENTS OF BENEFITS 44

8.1	Notice	44
8.2	Amount of Benefits and Valuation	45
8.3	Modes of Payment	45
8.4	Medium of Payment	46
8.5	Time for Payment	47
8.6	Undistributed Accounts	48
8.7	S Corporation Distributions	48
8.8	C Corporation Dividends	49
8.9	Unclaimed Accounts	50
8.10	Facility of Payment	51

ARTICLE 9
MINIMUM DISTRIBUTION REQUIREMENTS 51

9.1	Effective Date	51
9.2	Precedence	51
9.3	Requirements of Treasury Regulations Incorporated	51
9.4	Time and Manner of Distribution	51
9.5	Forms of Distribution	52
9.6	Required Minimum Distributions During Participant’s Lifetime	52
9.7	Required Minimum Distributions After Participant’s Death	53
9.8	Definitions	54
9.9	Election to Allow Participants or Beneficiaries to Elect 5-Year Rule	55

ARTICLE 10
TOP HEAVY PROVISIONS 55

10.1	Preemption	55
10.2	Minimum Contribution	55

10.3 Minimum Vesting 56

ARTICLE 11
CLAIMS PROCEDURE 57
11.1 Claims for Benefits 57
11.2 Denial of Benefits 57
11.3 Review Procedure 58
11.4 Decision on Review 59

ARTICLE 12
ADMINISTRATIVE COMMITTEE 60
12.1 Appointment 60
12.2 Resignation and Termination 60
12.3 Chairman and Agents 60
12.4 Meetings 61
12.5 Records 61
12.6 Powers 61
12.7 Compensation 62
12.8 Indemnity 62
12.9 Powers Denied 62
12.10 Action When There is a Vacancy 63
12.11 Settlement of Claims 63
12.12 Discretionary Powers 63
12.13 Employment of Professionals and Assistants 63
12.14 Bond 63

ARTICLE 13
TRUSTEE 64
13.1 Duty and Liability of Trustee 64
13.2 General Scope of Powers 64
13.3 Investment Powers 67
13.4 Appointment of Investment Manager 68
13.5 More Than One Trustee 68
13.6 Individual Trustees 69
13.7 Annual Account 69
13.8 Person Dealing with Trustee 69
13.9 Prohibited Transactions 69
13.10 Indemnity 70
13.11 Resignation and Appointment 70
13.12 Removal of Trustee 70
13.13 Continuation of the Trust 70

ARTICLE 14
CLAIMS AGAINST THE TRUST FUND 71
14.1 Anti-Alienation of Benefits 71
14.2 Charge for Litigation 71
14.3 Qualified Domestic Relations Orders 71
14.4 Independent Fund 73
14.5 Payments Delayed Due To Disputes 73

ARTICLE 15
MILITARY SERVICE AND LEAVE OF ABSENCE 73
15.1 Compulsory Military Service 73
15.2 Voluntary Military Service 74
15.3 Participation During Leave of Absence 74

ARTICLE 16
PARTICIPATING EMPLOYERS 75
16.1 Adoption of Plan 75
16.2 Requirements of Participating Employers 75
16.3 Allocation of Contributions 75
16.4 Accounting for Employees 75
16.5 Separate Records 76
16.6 Amendment 76
16.7 Discontinuance of Participation 76

ARTICLE 17
RIGHTS OF EMPLOYER TO AMEND, DISCONTINUE OR TERMINATE 77
17.1 Amendment 77
17.2 Termination of Plan 77
17.3 Trust Term 77
17.4 Termination of Trust 78

ARTICLE 18
SUCCESSOR EMPLOYER AND MERGER OR CONSOLIDATION OF PLANS 78
18.1 Successor Employer 78
18.2 Merger and Consolidation 78

ARTICLE 19
MISCELLANEOUS 79
19.1 Inspection of Books 79
19.2 Right to Terminate Employment 79
19.3 Liability of Employer 79
19.4 Defense Under Tax Laws 79
19.5 Governing Law 79
19.6 Binding Effect 80
19.7 Qualification Under Tax Laws 80
19.8 Earlier Effective Date to Maintain Tax Qualification 80

COMMUNICATIONS SYSTEMS, INC.

EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

This Agreement, restating the Communications Systems, Inc. Employee Stock Ownership Plan and Trust ("Plan"), is adopted by Communications Systems, Inc., a Minnesota corporation, (the "Employer") and Curtis A. Sampson, Jeffrey K. Berg and Paul N. Hanson (collectively, the "Trustee") and is effective as of January 1, 2009.

W I T N E S S E T H

WHEREAS, the Employer established a stock bonus and employee stock ownership plan for the benefit of its Employees effective January 1, 1985 which satisfies the requirements of a stock bonus and employee stock ownership plan under Sections 401(a) and 4975(e)(7) of the Internal Revenue Code; and

WHEREAS, the Plan has been amended and restated from time to time and has continued in force at all times since its effective date; and

WHEREAS, the Employer desires to restate the Plan to comply with changes in federal law; and

WHEREAS, Curtis A. Sampson, Jeffrey K. Berg and Paul N. Hanson have agreed to continue to serve as Trustees of the Trust established hereunder;

NOW, THEREFORE, the Communications Systems, Inc. Employee Stock Ownership Plan and Trust is amended and restated in its entirety effective as of January 1, 2009 to read as follows:

ARTICLE 1

NAME AND PURPOSE

1.1 **Name.** The name of the employee stock ownership plan set forth in this instrument is the Communications Systems, Inc. Employee Stock Ownership Plan, and the name of the employee stock ownership trust which is part of that Plan and the terms of which are set forth in this instrument is the Communications Systems, Inc. Employee Stock Ownership Trust.

1.2 Purpose. The purpose of the Plan is to provide the eligible Employees of the Employer with an ownership interest in the common stock of the Employer in order to increase their loyalty to the Employer and their interest in the Employer's business. The Plan is designed to invest primarily in Employer Securities and is designated as an employee stock ownership plan under Section 4975(e)(7) of the Code. The purpose of the Trust is to facilitate the administration of the Plan for the exclusive benefit of Participants and their Beneficiaries.

ARTICLE 2

DEFINITIONS AND INTERPRETATIONS

2.1 General Definitions.

(1) **"Administrative Committee"** or **"Committee"** shall mean the Committee described herein. In the absence of an appointment of individuals to serve on the Committee, the Employer shall serve as the Committee.

(2) **"Affiliate"** shall mean a trade or business which is under common control with the Employer under the provisions of Section 414 of the Code, including controlled groups of corporations under Section 414(b) of the Code and partnerships and proprietorships pursuant to Section 414(c) of the Code, an affiliated service group as defined in Section 414(m) of the Code and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code; provided, however, that such trade or business shall be deemed an Affiliate for all purposes hereunder, unless specifically provided otherwise, only from the date it came under the common control of the Employer.

(3) **"Alternate Payee"** shall mean a:

(i) spouse;

(ii) former spouse;

(iii) child; or

(iv) other dependent

of a Participant who is recognized by a Qualified Domestic Relations Order as having a right to receive all, or a portion of, a Participant's Beneficial Interest under the Plan.

An Alternate Payee is treated as a Beneficiary for all purposes under the Plan.

(4) **“Anniversary Date”** shall mean the last day of any Plan Year.

(5) **“Beneficial Interest”** shall mean the amount of a Participant’s account in the Trust that is distributable to the Participant or the Participant’s Beneficiary in accordance with the terms of the Plan.

(6) **“Beneficiary”** shall mean any person entitled to receive benefits which may be payable upon or after a Participant’s death.

(7) **“Board of Directors”** shall mean the elected Board of Directors of Communications Systems, Inc.

(8) **“Break in Service”** shall mean a Plan Year during which the Employee did not complete more than 500 Hours of Service with the Employer. However, a Participant shall be credited with up to 501 Hours of Service during the Plan Year in which the Participant begins a Parental Leave, if such crediting is necessary to prevent a Break in Service in such Plan Year; otherwise, such Hours of Service shall be credited in the following Plan Year. A Participant shall also be credited with Hours of Service for any periods of unpaid leave during the Plan Year subject to the Family and Medical Leave Act of 1993, if such crediting is necessary to prevent a Break in Service in such Plan Year.

(9) **“Code”** shall mean the Internal Revenue Code of 1986, and amendments thereto.

(10) **“Compensation”** shall mean, except as provided below, the regular or base salary or wages, overtime, commissions and bonuses received by a Participant from the Employer during the Plan Year, including the value of any noncash property includable in base salary or wages. Compensation shall also include any amount which is contributed by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 132(f)(4), 402(g)(3), 402(h)(1)(B) or 403(b) of the Code.

Compensation shall not include reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, welfare benefits, contributions by the Employer to this Plan or to any pension, profit sharing or annuity plan intended to qualify under Section 401 of the Code, as amended, amounts realized from the exercise, sale or exchange of stock options, or amounts paid to an Employee for services rendered while the Employee is not a Participant as herein defined.

For Plan Years beginning on or after July 1, 2007, payments made within 2½ months after severance from employment (within the meaning of Section 401(k)(2)(B)(i)(I) of the Code) or the end of the Plan Year that includes the date of severance from employment will be Compensation if such payments are included when determining the Participant’s Net Compensation for the concurrent Limitation Year. However, payments made after 2½ months after severance from employment shall not be excluded from Compensation if such payments are made to an individual who does not currently perform services for the Employer because of qualified military service (within the meaning of Section 414(u)(1) of the Code) or who is permanently and totally disabled (as defined in Section 22(e)(3) of the Code).

For Plan Years beginning on or after July 1, 2007, Compensation may include amounts earned but not paid during the Plan Year solely because of the timing of pay periods and pay dates, provided the amounts are paid during the first few weeks of the next Plan Year, the amounts are included on a uniform and consistent basis with respect to all similarly situated Employees, and no Compensation is included in more than one Plan Year.

Notwithstanding the foregoing, the annual Compensation of each Participant taken into account in determining allocations shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. Annual Compensation means Compensation during the Plan Year or such other consecutive12-month period over which Compensation is otherwise determined under the Plan (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual Compensation for the determination period that begins with or within such calendar year. If any Plan Year consists of a period of less than 12 months, the maximum Compensation limit, as adjusted, shall be prorated based on the number of months in such short Plan Year.

Net Compensation (as defined in the second paragraph of Section 2.1(25)) shall be substituted for the foregoing definition in any Plan Year in which the average percentage of Net Compensation included under the foregoing definition for the Highly Compensated Participants as a group exceeds by more than a de minimis amount the average percentage of Net Compensation included for the Employer's other Employees as a group.

(11) **"Direct Rollover"** shall mean a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

(12) **"Disability"** shall mean a physical or mental condition of a Participant resulting from a bodily injury or disease or mental disorder that renders the Participant incapable of continuing employment with the Employer. Disability of any Participant shall be determined by the Employer in accordance with uniform principles consistently applied, upon the basis of such medical and other evidence that the Employer deems necessary and desirable.

(13) **"Distributee"** includes a Participant, former Participant or Beneficiary. In addition, the Participant's or former Participant's surviving spouse and the Participant's or former Participant's spouse or former spouse who is the Alternate Payee under a Qualified Domestic Relations Order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

(14) **"Earliest Retirement Age"** shall mean, for purposes of a Qualified Domestic Relations Order, the earlier of:

(i) the date on which the Participant is entitled to a distribution under the Plan; or

(ii) the later of the day the Participant attains age 50, or the earliest date on which the Participant's Beneficial Interest could commence under the Plan if the Participant separated from service.

Earliest Retirement Age shall also mean a date earlier than (i) or (ii) if such date is specified in the Qualified Domestic Relations Order.

(15) **"Effective Date"** of this restated Plan document shall mean January 1, 2009. This Plan and Trust was originally effective on January 1, 1985.

(16) **"Eligible Retirement Plan"** shall mean any of the following that accepts the Distributee's Eligible Rollover Distribution:

(i) an individual retirement account described in Section 408(a) of the Code;

(ii) an individual retirement annuity described in Section 408(b) of the Code;

(iii) effective January 1, 2008, a Roth IRA described in Section 408A(b) of the Code;

(iv) an annuity plan described in Section 403(a) of the Code;

(v) a qualified trust described in Section 401(a) of the Code; or

(vi) an annuity contract described in Section 403(b) of the Code or an eligible plan under Section 457(b) of the Code maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the Alternate Payee under a Qualified Domestic Relations Order.

(17) **"Eligible Rollover Distribution"** shall mean any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:

(i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more;

(ii) any distribution to the extent such distribution is required under Section 401(a)(9) of the Code;

(iii) the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer Securities);

(iv) any hardship distribution; and

(v) any other distribution(s) reasonably expected to total less than $200 during a year.

For distributions after December 31, 2006, Eligible Rollover Distribution shall mean for a non-spouse Beneficiary a Direct Rollover of all or any portion of the Beneficiary's distribution to an "inherited" individual retirement account the Beneficiary establishes for purposes of receiving the distribution. In order to be able to roll over the distribution, the distribution otherwise must satisfy the definition of an Eligible Rollover Distribution. Such distribution is not subject to the direct rollover requirements of Section 401(a)(31) of the Code, the notice requirements of Section 402(f) of the Code or the mandatory withholding requirements of Section 3405(c) of the Code.

(18) **"Employee"** shall mean a person performing services for the Employer who is classified by the Employer as an employee for income tax withholding and reporting purposes. The Employer's classification of a person for purposes of the Plan shall be conclusive. No reclassification of a person's status with the Employer for any reason, without regard to whether it is initiated by a court, governmental agency or otherwise and without regard to whether or not the Employer agrees to such reclassification, shall result in the person being considered an Employee for Plan purposes.

(19) **"Employer"** shall mean Communications Systems, Inc., a Minnesota corporation, as sponsoring employer, and Transition Networks, Inc. and JDL Technologies, Inc., as participating employers, and such additional Affiliates of the Employer or other corporation or entity as may participate in the Plan upon approval of such participation by the Board of Directors. For purposes of service counted for eligibility and vesting, employment with an Affiliate shall be deemed employment with the Employer. Communications Systems, Inc. is authorized to act on behalf of participating employers with respect to all Plan matters.

(20) **"Employer Contributions"** shall mean all contributions with respect to a Plan Year made to the Plan by the Employer.

(21) **"Entry Date"** shall mean January 1 or July 1 of each Plan Year.

(22) **"Highly Compensated Participant"** shall mean, except as otherwise provided in Section 414(q) of the Code, a Participant who:

(i) was a 5% owner of the Employer during the Plan Year in which the determination is made or during the preceding Plan Year; or

(ii) received more than $100,000 (as adjusted from time to time by the Secretary of the Treasury under Section 414(q)(1) of the Code) in Net Compensation from the Employer during the preceding Plan Year and was one of the top 20% of Employees by Net Compensation during the Plan Year.

For purposes of this definition, the following rules shall apply:

(A) The term Employer shall include any Affiliate of the Employer, and Net Compensation from any such Affiliates shall be aggregated.

(B) In determining the number of the top 20% of Employees there shall be excluded from the group any Employee who either: has not attained age 21, has worked less than 6 months, normally works less than 17½ hours per week, normally works less than 6 months per year, is a nonresident alien who does not earn income from sources within the United States, is covered by a collective bargaining agreement between the Employees' representative and the Employer under which the retirement benefits were the subject of good faith bargaining between the parties, or may otherwise be excluded under the Code and the regulations promulgated thereunder.

(C) For purposes of determining whether an employee is a Highly Compensated Participant, the term compensation shall mean compensation as defined in Section 415(c)(3) of the Code.

(D) The determination of who is a Highly Compensated Participant, including the determination of the number and identity of Employees in the top-paid group, will be made in accordance with the provisions of Section 414(q) of the Code and the regulations promulgated thereunder.

(E) The determination of who is a Highly Compensated Participant, including the determination of the number and identity of Employees in the top-paid group, will be made in the same manner for all plans of the Employer.

(F) A former employee shall be treated as a "Highly Compensated Former Participant" if such employee was a Highly Compensated Participant upon separation from service or at any time after attaining age fifty-five (55).

(23) **"Hour of Service"** shall mean each hour for which the Employee is paid, or entitled to payment, for the performance of duties for the Employer or an Affiliate. These hours shall be credited in the Plan Year in which the services are performed. Hour of Service shall also include each hour for which the Employee is paid, or entitled to payment, by the Employer or an Affiliate on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or Employer or Affiliate-approved leave of absence, subject to the following exceptions:

(i) No more than 501 Hours of Service shall be credited to an Employee for any single continuous period during which the Employee performs no duties for the Employer or an Affiliate.

(ii) No Hours of Service shall be credited to an Employee for a period during which no duties are performed for the Employer or an Affiliate and payment is made or due to the Employee under applicable workers' compensation, unemployment compensation or disability insurance laws.

(iii) No Hours of Service shall be credited to an Employee for a period during which no duties are performed for the Employer or an Affiliate and payments are made to the Employee solely as reimbursement for medical or medically-related expenses incurred by the Employee.

The number of Hours of Service that an Employee shall receive for any period of time for which the Employee is paid or is entitled to payment by the Employer or an Affiliate but during which no duties are performed for the Employer or an Affiliate shall be computed in accordance with the rules set forth in Section 2530.200b-2 and 3 of the Labor Regulations.

Hours of Service shall also include each hour for which back pay (irrespective of mitigation of damages) has been awarded or agreed to by the Employer or an Affiliate, provided that the hour has not been credited to the Employee previously. Each such hour shall be credited to the Employee for the Plan Year or other computation period to which the award or agreement pertains. Each Employee shall also be credited with Hours of Service for any customary period of work, based on a 40-hour week, or a pro rata portion thereof, during which the Employee is on an Employer or Affiliate-approved leave of absence and for which the Employee is not otherwise awarded Hours of Service.

The number of an Employee's Hours of Service shall be determined in accordance with this paragraph. Where the Employer or an Affiliate has records from which the number of an Employee's Hours of Service may be ascertained, the number shall be computed from those records, except as otherwise permitted by the next sentence. The number of Hours of Service for any Employee described by the preceding sentence may be computed in accordance with the method defined below so long as that method is applied to such Employee in a nondiscriminatory manner. Where the Employer or an Affiliate does not have records from which the number of an Employee's Hours of Service can be ascertained, the Employee shall be credited with 45 Hours of Service for each week during which the Employee is entitled to at least one Hour of Service.

Hours of Service shall also be credited for an individual considered an employee of the Employer or an Affiliate under Sections 414(n) and 414(o) of the Code and the regulations promulgated thereunder, even though such individual is not eligible to participate in the Plan.

(24) **"Leased Employee"** shall mean any person (other than an Employee of the Employer) who pursuant to an agreement between the Employer and any other person ("leasing organization") has performed services for the Employer (or for the Employer and related persons as defined in Section 414(n)(6) of the Code) on a substantially full time basis for a period of at least one (1) year provided such services are performed under the primary direction or control of the Employer.

(25) **“Net Compensation”** shall mean, for purposes of determining Highly Compensated Participants, Key Employees, minimum contributions in a Top Heavy Plan, and the limitation on Annual Additions, the wages, salaries, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in Reg. §1.62-2(c)), amounts that are includible in the gross income of an Employee under the rules of Sections 409A or 457(f)(1)(A) of the Code or because the amounts are constructively received by the Employee, and excluding the following:

(i) Employer contributions (other than elective contributions described in Sections 402(e)(3), 408(k)(6), 408(p)(2)(A)(i) or 457(b) of the Code) to a plan of deferred compensation (including a simplified employee pension described in Section 408(k) of the Code or a simple retirement account described in Section 408(p) of the Code, and whether or not qualified) which are not includible in the Employee’s gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a plan of deferred compensation (whether or not qualified);

(ii) amounts realized from the exercise of a nonstatutory stock option (that is, an option other than a statutory stock option as defined in Reg. §1.421-1(b)), or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) amounts realized from the sale, exchange or other disposition of stock acquired under a statutory stock option;

(iv) other amounts which received special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity contract described in Section 403(b) of the Code (whether or not the contributions are actually excludable from the gross income of the Employee); and

(v) other items of remuneration that are similar to any of the items listed in (i) through (iv) above.

Net Compensation for a Limitation Year is the Net Compensation actually paid or made available in gross income during such Limitation Year. Notwithstanding the preceding sentence, Net Compensation for a Participant in a defined contribution plan who is permanently and totally disabled (as defined in Section 22(e)(3) of the Code) is the Net Compensation such Participant would have received for the Limitation Year if the Participant had been paid at the rate of Net Compensation paid immediately before becoming permanently and totally disabled.

Net Compensation includes any amount which is contributed by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 132(f)(4), 402(g)(3) or 457 of the Code. Amounts under Section 125 include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that the Participant has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

For Limitation Years beginning on or after July 1, 2007, payments made within 2½ months after severance from employment (within the meaning of Section 401(k)(2)(B)(i)(I) of the Code) or the end of the Limitation Year that includes the date of severance from employment will be compensation within the meaning of Section 415(c)(3) of the Code if they are payments that, absent a severance from employment, would have been paid to the Employee while the Employee continued in employment with the Employer and are regular compensation for services during the Employee's regular working hours, compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar compensation, and payments for accrued bona fide sick, vacation or other leave, but only if the Employee would have been able to use the leave if employment had continued. Any payments not described above are not considered Net Compensation if paid after severance from employment, even if they are paid within 2½ months following severance from employment, except for payments to an individual who does not currently perform services for the Employer by reason of qualified military service (within the meaning of Section 414(u)(1) of the Code) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

(26) **"Non-Highly Compensated Participant"** shall mean any Participant who is not a Highly Compensated Participant.

(27) **"Normal Retirement Age"** shall mean the day a Participant attains the age of 65.

(28) **"Parental Leave"** shall mean certain periods of absence from work due to:

(i) pregnancy of the Employee;

(ii) birth of a child of the Employee;

(iii) placement of a child in connection with adoption of the child by the Employee; or

(iv) caring for the child by the Employee during the period immediately following the birth or placement for adoption.

The Employer may require written certification (including a physician's statement) from the Employee that the leave qualifies hereunder. A Parental Leave shall only permit a Participant to avoid a Break in Service, and shall not affect other provisions of this Plan.

(29) **“Participant”** shall mean an Employee of the Employer who becomes a Participant as provided in Section 3.1 hereof.

(30) **“Participant Contributions”** shall mean, to the extent permitted by the Employer, contributions made to the Plan by Participants, and shall be classified as follows:

(i) **“Rollover Contribution”** shall mean a distribution from another eligible retirement plan, as specified below, which an Employee contributes to the Plan in accordance with Section 4.3, and which the Plan receives either directly from the Employee or, at the election of the Employee, by means of a direct rollover from the other eligible retirement plan. Rollover Contributions shall include distributions from:

(1) a qualified plan described in Sections 401(a) or 403(a) of the Code, excluding after-tax employee contributions;
(2) an annuity contract described in Section 403(b) of the Code, excluding after-tax employee contributions;
(3) an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state;
(4) the portion of a distribution from an individual retirement account or annuity described in Sections 408(a) or (b) of the Code that is eligible to be rolled over and would otherwise be includible in gross income.

(ii) **“Trustee to Trustee Transfer”** shall mean a transfer directly from the trustee of another qualified retirement plan to this Plan, which is either initiated by the trustee or, to the extent permitted by law, initiated by the Employee other than as a direct rollover described in Section 8.3.

(31) **“Plan”** shall mean the Communications Systems, Inc. Employee Stock Ownership Plan.

(32) **“Plan Year”** shall mean the 12 month period ending on December 31 of each year.

(33) **“Qualification Procedures”** shall mean written procedures adopted by the Employer to:

(i) determine whether domestic relations orders meet the requirements for Qualified Domestic Relations Orders; and

(ii) to administer distributions under such orders.

The Employer shall implement the procedures within a reasonable time after receipt of a domestic relations order. Qualification Procedures must permit an Alternate Payee to designate a representative for receipt of copies of notices sent to the Alternate Payee with respect to a Qualified Domestic Relations Order.

(34) **"Qualified Domestic Relations Order"** shall mean a judgment, decree or order, including approval of a property settlement agreement, that relates to provision of child support, alimony payments, or marital property rights to an Alternate Payee, is made pursuant to state domestic relations law (including a state community property law) and creates an Alternate Payee's right to all or a portion of the benefits payable to a Participant under the Plan. A Qualified Domestic Relations Order must satisfy all of the requirements of Section 414(p) of the Code and must specify:

(i) the name and last known mailing address of each Alternate Payee;

(ii) the amount or percentage of the Participant's benefits to be paid to the Alternate Payee or the manner in which the amount is to be determined;

(iii) the number of payments or period for which payments are required; and

(iv) each plan to which the order relates.

An order does not qualify under this definition if it requires the Employer to provide a benefit or option not available under the Plan, requires the Plan to provide increased benefits or requires payment of benefits to an Alternate Payee that are required to be paid to another Alternate Payee under a previously existing Qualified Domestic Relations Order.

(35) **"Required Beginning Date"** shall mean the April 1 of the calendar year following the later of the calendar year in which the Participant attains age 70½ or retires, except as provided below. Notwithstanding the above, the Participant shall still have the option of having the Required Beginning Date be the April 1 of the calendar year following the calendar year in which the Participant attains age 70½.

If the Participant is a 5% owner, the Required Beginning Date shall be April 1 of the calendar year following the year in which the Participant attains age 70½, regardless of whether the Participant has retired. For purposes of this Section, a Participant is a 5% owner if such Participant is a 5% owner as defined in Section 416(i) of the Code (determined in accordance with Section 416 but without regard to whether the Plan is Top Heavy) at any time during the Plan Year ending with or within the calendar year in which such owner attains age 66½ or any subsequent Plan Year.

(36) **"Termination of Employment"** of a Participant or Employee shall mean complete severance from employment with the Employer.

(37) **"Trust"** shall mean the Communications Systems, Inc. Employee Stock Ownership Trust.

(38) **"Trust Fund"** or **"Fund"** shall mean the total of contributions made hereunder, or the investments purchased, increased by profits, income, refunds and recoveries received, and decreased by investment losses and expenses incurred in the administration of the Trust and by benefits released or paid.

(39) **"Trustee"** shall mean the undersigned Trustee or Trustees or any duly appointed successor Trustee.

(40) **“Valuation Date”** shall mean the Anniversary Date and any other date as of which the valuation of the Trust Fund is deemed necessary by the Trustee in a nondiscriminatory manner.

(41) **“Year of Service”** shall mean a Plan Year during which an Employee completes 1,000 or more Hours of Service with the Employer or an Affiliate.

2.2 **Qualifying Employer Securities Definitions.**

(1) **“Deemed-Owned Shares”** shall mean, with respect to any person:

(1) the stock in an S corporation constituting Employer Securities which is allocated to such person under the Plan, and

(2) such person’s share of the stock in such corporation which is held by the Plan but which is not allocated under the Plan to Participants. For this purpose, a person’s share of unallocated S corporation stock held by the Plan is the amount of the unallocated stock that would be allocated to such person if the unallocated stock were allocated to all Participants in the same proportions as the most recent stock allocation under the Plan.

(2) **“Disqualified Person”** shall mean, except for purposes of Section 6.16, a person described in Section 4975(e)(2) of the Code.

For purposes of Section 6.16, Disqualified Person means any person if:

(i) the aggregate number of Deemed-Owned Shares of such person and the members of such person’s family is at least 20 percent of the number of Deemed-Owned Shares of stock in the S corporation, or

(ii) in the case of a person not described in (i) above, the number of Deemed-Owned shares of such person is at least 10 percent of the number of Deemed-Owned shares of stock in such corporation.

In the case of a Disqualified Person described in (i) above, any member of such person’s family with Deemed-Owned Shares shall be treated as a Disqualified Person. For this purpose “member of the family” means, with respect to any individual, (1) the spouse of the individual, (2) an ancestor or lineal descendant of the individual or the individual’s spouse, (3) a brother or sister of the individual or the individual’s spouse and any lineal descendant of the brother or sister, and (4) the spouse of any individual described in (2) or (3). A spouse of an individual who is legally separated from such individual under a decree of divorce or separate maintenance shall not be treated as such individual’s spouse.

(3) **"Employer Securities"** shall mean common stock issued by the Employer, or an Affiliate, which is readily tradable on an established securities market. If there is no common stock that meets the preceding requirement, the term Employer Securities shall mean common stock issued by the Employer, or an Affiliate, having a combination of voting power and dividend rights equal to or in excess of:

(i) that class of common stock of the Employer, or Affiliate, having the greatest voting power; and

(ii) that class of common stock of the Employer, or Affiliate, having the greatest dividend rights.

Provided the Employer is not an S corporation, the term Employer Securities shall also mean noncallable preferred stock issued by the Employer if such stock is convertible at any time into stock which meets the requirements of the preceding sentences and if the conversion price is reasonable.

For purposes of transactions that do not involve an Exempt Loan, the term Employer Securities shall mean either stock or a marketable obligation of the Employer or an Affiliate, as defined in Section 407(d)(5) of the Employee Retirement Income Security Act of 1974.

(4) **"Exempt Loan"** or **"Loan"** shall mean a loan made to the Plan by a Disqualified Person or which a Disqualified Person guarantees and which satisfies the requirements of Section 4975(d)(3) of the Code and Section 54.4975-7(b) of the Treasury Regulations, as amended from time to time.

(5) **"Independent Appraiser"** shall mean an independent appraiser as defined in Section 401(a)(28) of the Code.

(6) **"Impermissible Accrual"** shall occur to the extent (and only to the extent) that Employer Securities consisting of stock in an S corporation owned by the Plan and any assets attributable thereto are held under the Plan for the benefit of a Disqualified Person during a Nonallocation Year. For this purpose, assets attributable to S corporation securities include any distributions, within the meaning of Section 1368 of the Code, made on S corporation stock held in a Disqualified Person's Plan account (including earnings thereon), plus any proceeds from the sale of S corporation securities held for a Disqualified Person's Plan account (including any earnings thereon).

(7) **"Impermissible Allocation"** shall mean any allocation for a Disqualified Person directly or indirectly under any qualified plan of the Employer that occurs during a Nonallocation Year to the extent that a contribution or other annual addition is made, or the Disqualified Person otherwise accrues additional benefits, under this Plan or any other qualified plan of the Employer (including a release and allocation of assets from a suspense account, as described at Section 54.4975-11(c) and (d) of the Treasury Regulations) that, for the Nonallocation Year, would otherwise have been added to the account of the Disqualified Person under the Plan and invested in Employer Securities consisting of stock in an S corporation owned by the Plan but for a provision in the Plan to comply with Section 409(p) of the Code.

(8) **“Nonallocation Period”** shall mean the period beginning on the date of the sale of Employer Securities and ending on the later of:

(i) the date which is 10 years after the date of sale; or

(ii) the date of the Plan allocation attributable to the final payment of the Exempt Loan taken in connection with such sale.

(9) **“Nonallocation Year”** shall mean any Plan Year if, at any time during such Plan Year, (1) the Plan holds Employer Securities consisting of stock in an S corporation, and (2) Disqualified Persons (as that term is defined for purposes of Section 6.16) own at least 50 percent of the number of shares of stock in the S corporation.

(10) **“Qualified Election Period”** shall mean the six Plan Year period beginning with the Plan Year in which the Participant first becomes a Qualified Participant.

(11) **“Qualified Holder”** shall mean:

(i) the Participant;

(ii) the Participant’s donee; and

(iii) a person (including an estate or its distributee) to whom the Employer Securities pass by reason of the Participant’s death.

(12) **“Qualified Participant”** shall mean a Participant who has attained the age of 55 and who has completed at least 10 years of participation in the Plan.

(13) **“Registration-Type Class of Employer Securities”** shall mean a class of Employer Securities required to be registered under Section 12 of the Securities Exchange Act of 1934 and a class of Employer Securities which would be required to be so registered except for the exemption from registration provided in Subsection (g)(2)(H) of such Section 12.

(14) **“Synthetic Equity”** shall mean any stock option, warrant, restricted stock, deferred issuance stock right, or similar interest or right that gives the holder the right to acquire or receive stock of the S corporation in the future. Except to the extent provided in regulations, Synthetic Equity also includes a stock appreciation right, phantom stock unit, or similar right to a future cash payment based on the value of such stock or appreciation in such value.

(15) **“Total Distribution”** shall mean a distribution to a Participant or a Participant’s Beneficiary, within one taxable year of such recipient, of the entire balance to the credit of the Participant.

(16) **“Value of Employer Securities”** shall mean:

(i) in the case of Employer Securities listed on a national exchange, the closing price of such Employer Securities on the date the securities are contributed to the Plan; or

(ii) in the case of Employer Securities not listed on a national exchange, the fair market value as determined in good faith and in accordance with regulations prescribed by the Secretary of the Treasury, provided, however, that if the Plan has a nonterminable put option that requires the Employer or shareholders of the Employer with substantial net worth to purchase Employer Securities from the Plan at the discretion of the Trustee, then the Value shall be adjusted to reflect a controlling interest (i.e., enterprise value) and shall not be discounted to reflect a minority or nonmarketable interest. In a transaction between the Plan and a Disqualified Person, Value shall be determined as of the transaction date. In other cases, Value shall be determined as of the most recent Valuation Date.

2.3 Limitation Definitions.

(1) "Annual Addition" shall mean the sum of the following amounts credited to a Participant's accounts with this Plan and any other qualified plan maintained by the Employer or an Affiliate for the Plan Year:

(i) Employer Contributions;

(ii) Participant Contributions, including excess deferrals (other than excess deferrals that are distributed in accordance with Reg. §1.402(g)-1(e)(2)), distributed or recharacterized excess contributions, and excess aggregate contributions, if any, but excluding catch-up contributions, Rollover Contributions and Trustee to Trustee Transfers;

(iii) any forfeitures that are, under the Plan, reallocated and not used to reduce Employer Contributions;

(iv) amounts allocated to an individual medical account, as defined in Section 415(l)(2) of the Code, which is part of a pension or annuity plan maintained by the Employer;

(v) amounts allocated to a separate account of a Key Employee under an Employer-sponsored welfare benefit fund, as defined in Section 419(e) of the Code, which will provide postretirement medical benefits;

(vi) mandatory employee contributions, as defined in Section 411(c)(2)(C) of the Code and Reg. §1.411(c)-1(c)(4), to a defined benefit plan; and

(vii) annual additions under an annuity contract described in Section 403(b) of the Code.

Annual Additions shall not include restorative payments, as defined in Reg. §1.415(c)-1(b)(2)(ii)(C), allocated to a Participant's account, which include payments made to restore losses to the Plan resulting from actions (or a failure to act) by a Plan fiduciary.

(2) **“Limitation Year”** shall mean (for federal income tax purposes) the Plan Year. The adoption of this Plan by the Employer shall be its choice of this Limitation Year for purposes of Section 415 of the Code and the regulations issued thereunder.

2.4 **Top Heavy Definitions.**

(1) **“Account Balance”**, for any individual, shall mean, as of the Determination Date, the sum of the individual’s:

(i) account balance as of the most recent Valuation Date occurring within a 12-month period ending on the Determination Date;

(ii) contributions (Employer and Participant) actually made to the Plan on or before the Determination Date;

(iii) Employer Contributions due as of the Determination Date, if the Plan is subject to the minimum funding requirements of Section 412 of the Code; and

(iv) the aggregate distributions made with respect to such individual under the Plan during the 1-year period (5-year period in determining whether the Plan is top-heavy for Plan Years beginning before January 1, 2002) ending on the Determination Date;

but less any contribution constituting a rollover from a plan not maintained by the Employer or an Affiliate.

(2) **“Aggregation Group”** shall mean:

(i) each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the Plan Year containing the Determination Date or any of the four preceding Plan Years (regardless of whether the plan has terminated); and

(ii) any other qualified plan of the Employer which enables a plan described in (i) to meet the requirements of Sections 401(a)(4) or 410 of the Code.

(3) **“Determination Date”** shall mean, with respect to the first Plan Year, the last day of such Plan Year, and with respect to any subsequent Plan Year, the preceding Anniversary Date.

(4) **“Key Employee”** shall mean, for Plan Years beginning before January 1, 2002, an active or former Employee of the Employer who, at any time during the Plan Year containing the Determination Date or the four preceding Plan Years, is:

(i) an officer of the Employer with Net Compensation greater than 50% of the amount in effect under Section 415(b)(1)(A) of the Code for the Plan Year;

(ii) one of the 10 Employees with Net Compensation greater than the amount in effect under Section 415(c)(1)(A) of the Code and owning the largest interests in the Employer;

(iii) a 5% owner of the Employer; or

(iv) a 1% owner of the Employer having Net Compensation from the Employer of more than $150,000.

For Plan Years beginning after December 31, 2001, "Key Employee" shall mean an active or former Employee of the Employer who, at any time during the Plan Year containing the Determination Date is:

(i) an officer of the Employer with Net Compensation greater than $130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002);

(ii) a 5% owner of the Employer; or

(iii) a 1% owner of the Employer having Net Compensation from the Employer of more than $150,000.

The status of an Employee as Key Employee shall further be determined in accordance with the rules set forth in Section 416(i) of the Code and the regulations issued thereunder. For purposes of this paragraph, ownership shall be determined in accordance with Section 318 of the Code. The Beneficiary of a Key Employee shall be treated as a Key Employee.

(5) **"Non-Key Employee"** shall mean an Employee who is not a Key Employee, including any Employee who is a former Key Employee.

(6) **"Permissive Aggregation Group"** shall mean the Aggregation Group of plans plus any other plans of the Employer which, when considered as a group with the Aggregation Group, would continue to satisfy the requirements of Sections 401(a)(4) and 410 of the Code.

(7) **"Top Heavy."** The Plan or Aggregation Group is Top Heavy for the Plan Year if either of the following conditions exist:

(i) The Plan is not part of an Aggregation Group and the Top Heavy Ratio for such Plan exceeds 60%.

(ii) The Plan is part of an Aggregation Group and the Top Heavy Ratio for such Aggregation Group exceeds 60%.

In determining whether a Plan or Aggregation Group is Top Heavy, the Account Balance and present value of accrued benefits of any individual who has not performed services for the Employer for a 1-year period ending on the Determination Date (5-year period in determining whether the Plan or Aggregation Group is Top Heavy for Plan Years beginning before January 1, 2002) or who is a Non-Key Employee but who was a Key Employee with respect to a prior Determination Date shall be disregarded. The status of the Plan as Top Heavy shall further be determined in accordance with the rules set forth in Section 416(g) of the Code and the regulations issued thereunder.

(8) "Top Heavy Ratio" shall mean:

(i) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer has not maintained any defined benefit plan which during the 5-year period ending on the Determination Date(s) has or has had accrued benefits, the Top Heavy Ratio for this Plan alone or for the Aggregation Group or Permissive Aggregation Group as appropriate is a fraction, the numerator of which is the sum of the Account Balances of all Key Employees as of the Determination Date(s) (including any part of any Account Balance distributed in the 1-year period ending on the Determination Date(s) or 5-year period ending on the Determination Date in the case of a distribution made for a reason other than Termination of Employment, death or Disability and in determining whether the Plan is Top Heavy for Plan Years beginning before January 1, 2002), and the denominator of which is the sum of all Account Balances (including any part of any Account Balance distributed in the 1-year period ending on the Determination Date(s) or 5-year period ending on the Determination Date in the case of a distribution made for a reason other than Termination of Employment, death or Disability and in determining whether the plan is Top Heavy for Plan Years beginning before January 1, 2002), both computed in accordance with Section 416 of the Code and the regulations thereunder. Both the numerator and denominator of the Top Heavy Ratio are increased to reflect any contribution not actually made as of the Determination Date, but which is required to be taken into account on that date under Section 416 of the Code and the regulations thereunder.

(ii) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer maintains or has maintained one or more defined benefit plans which during the 5-year period ending on the Determination Date(s) has or has had any accrued benefits, the Top Heavy Ratio for any Aggregation Group or Permissive Aggregation Group as appropriate is a fraction, the numerator of which is the sum of Account Balances under the aggregated defined contribution plan or plans for all Key Employees, determined in accordance with (i) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the Determination Date(s), and the denominator of which is the sum of the Account Balances under the aggregated defined contribution plan or plans for all participants, determined in accordance with (i) above, and the present value of accrued benefits under the defined benefit plan or plans for all participants as of the Determination Date(s), all determined in accordance with Section 416 of the Code and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the Top Heavy Ratio are increased for any distribution of an accrued benefit made in the 1-year period ending on the Determination Date (5-year period ending on the Determination Date in the case of a distribution made for a reason other than Termination of Employment, death or Disability and in determining whether the Plan is Top Heavy for Plan Years beginning before January 1, 2002).

(iii) For purposes of (i) and (ii) above the value of Account Balances and the present value of accrued benefits will be determined as of the most recent Valuation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in Section 416 of the Code and the regulations thereunder for the first and second plan years of a defined benefit plan. The Account Balances and accrued benefits of a participant (1) who is not a Key Employee but who was a Key Employee in a prior year, or (2) who has not been credited with at least one Hour of Service with any Employer maintaining the Plan at any time during the 1-year period (5-year period in determining whether the plan is Top Heavy for Plan Years beginning before January 1, 2002) ending on the Determination Date will be disregarded. The calculation of the Top Heavy Ratio, and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Section 416 of the Code and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the Top Heavy Ratio. When aggregating plans the value of Account Balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

The accrued benefit of a participant other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section 411(b)(1)(C) of the Code.

2.5 Interpretation. The words defined in this Article 2 shall have the meanings assigned to them except where specified otherwise in this Agreement. Whenever appropriate, words used herein in the singular shall include the plural and the plural may be read as the singular.

ARTICLE 3

PARTICIPATION IN THE PLAN

3.1 Eligibility. Every Employee who was a Participant in the Plan immediately prior to January 1, 2009 shall continue to be a Participant in this Plan as restated effective January 1, 2009.

Every other Employee shall enter the Plan as a Participant as of the Entry Date next occurring after the Employee has satisfied each of the following requirements:

(a) The Employee has completed 1,000 or more Hours of Service for the Employer during a period of 12 consecutive months, commencing on the date the Employee first performs an Hour of Service for the Employer. Subsequent eligibility periods shall be Plan Years commencing with the Plan Year which contains the first anniversary of the Employee's employment commencement date.

(b) The Employee is not included in any of the following classifications:

(i) Employees covered by a collective bargaining agreement between the Employees' representative and the Employer under which retirement benefits were the subject of good faith bargaining between the parties, unless such agreement provides for coverage under this Plan;

(ii) nonresident aliens who receive no earned income from sources within the United States as defined in the Code; and

(iii) Leased Employees.

An Employee or Leased Employee who has satisfied the requirements of (a) above but has not become a Participant because of inclusion in a classification of subsection (b) above shall become a Participant when the Employee or Leased Employee is no longer included in any of the classifications of subsection (b). An Employee who satisfies the above requirements, but whose Termination of Employment with the Employer occurs on or before the Entry Date, shall not become a Participant on that date. Such an individual shall become a Participant on the day that the individual again becomes an Employee and satisfies the requirements of subsection (b) above.

3.2 Designation of Beneficiary. Upon commencement of participation in the Plan, each Participant shall complete, sign and file with the Employer a designation of Beneficiary on a form to be provided by the Employer. On said form, the Participant shall designate a Beneficiary (or Beneficiaries), which may be an individual, the Participant's estate, or a trust, to whom shall be paid any sum which may be payable on account of the Participant's death (reserving, however, to the Participant the power to change the designation of Beneficiary from time to time) and where applicable, a particular form of benefit. The spouse of a married Participant shall be the Beneficiary of the entire vested and nonforfeitable benefit payable upon the death of the Participant unless the Participant's spouse irrevocably consents in writing to the designation of another Beneficiary. Such spousal consent shall identify the specific alternate Beneficiary, and where applicable, a particular form of benefit, acknowledge the effect of such designation, and be witnessed by a Plan representative or a notary public. Any subsequent change by the Participant in the designation of a Beneficiary shall require specific written consent by the Participant's spouse unless the spouse has previously consented in writing to voluntarily waive the right to consent to subsequent Beneficiary changes, and such consent acknowledges the spouse's right to otherwise limit consent to a specific Beneficiary. However, the designation of a Beneficiary other than the Participant's spouse shall be effective if the Employer determines that the foregoing consent may not be obtained because there is no spouse, because the spouse cannot be located, or because of other circumstances described in regulations issued by the Secretary of the Treasury.

If a Participant shall fail to validly designate a Beneficiary, or if no designated Beneficiary survives the Participant, the following designated persons shall be the Beneficiaries in the order named:

(a) the Participant's spouse, if living;

(b) the Participant's lawful descendants per stirpes, including any lawfully adopted descendants;

(c) the estate of the Participant.

In no event shall the Employer be named as or become a Beneficiary.

3.3 Termination of Participation. Participation in the Plan shall terminate on the later of a Participant's Termination of Employment, or the date following the expiration of a period of layoff or leave of absence approved by the Employer, if the Employee does not then return to employment with the Employer.

3.4 Recommencement of Participation. An Employee whose status as a Participant is terminated shall again become a Participant on the day that the Employee again performs an Hour of Service for the Employer and satisfies the requirements of Section 3.1(b), and the Employee shall be eligible to share in Employer Contributions in accordance with this Plan immediately upon reemployment.

3.5 Election Not to Participate. An Employee who may be eligible to become a Participant may elect not to become a Participant. Also, any Participant may elect not to be entitled to share in further Employer contributions to the Plan and in forfeitures occurring under the Plan. An election described in this Section shall be made in writing and delivered to the Employer. The election shall be effective as of the first day of the Plan Year in progress during which the written notice is filed unless the written notice specifies the first day of a subsequent Plan Year. The election shall also be effective for each and every subsequent Plan Year. However, an Employee or Participant who has made an election under this Section may terminate the election by filing a written statement to that effect with the Employer. Said written statements shall be effective as of the first day of the Plan Year in progress on the day when the written statement was filed or as of the first day of any subsequent Plan Year designated in the written statement. The filing of a written statement terminating an election under this Section 3.5 shall not entitle the Employee or Participant to any share of Employer contributions and forfeitures for Plan Years ending before the effective date of the termination of the election under this section.

ARTICLE 4

CONTRIBUTIONS

4.1 Employer Contributions. The Employer may, but is not required to, contribute to the Plan for each of its taxable years ending during the existence of the Plan. An Employer Contribution shall be attributed to the Plan Year ending on the same day as the taxable year for which the contribution is made, or if the Plan Year does not end on the same day as the Employer's taxable year, the contribution shall be attributable to the Plan Year within which the taxable year ends.

An Employer Contribution may be made to this Plan without regard to the accumulated or current net profits of the Employer and to that extent, this Plan shall be a discretionary contribution plan.

4.2 Participant Contributions. Except as permitted in Section 4.3, Participants shall not be required or permitted to make contributions to the Plan from their Compensation or otherwise.

4.3 Rollover Contributions and Trustee to Trustee Transfers. Where an Employee has received, or will receive, a distribution from another eligible retirement plan which is exempt from taxation under the Code, the Employer may instruct the Trustee to accept the amount of said distribution:

(a) as a Rollover Contribution to the Plan; or

(b) as a Trustee to Trustee Transfer from the other qualified retirement plan.

The Employer shall not direct the Trustee to accept a Rollover Contribution unless the Employer has reason to believe that, if the Trustee accepts the Rollover Contribution, the Employee will avoid taxation under the Code on the contribution and the Plan will not be required to make available to the Employee any optional form of benefit not currently available to the Employee under the Plan. A Rollover Contribution or Trustee to Trustee Transfer may be accepted from an Employee or another qualified retirement plan before the Employee becomes a Participant. No Trustee to Trustee Transfer shall be accepted from a qualified retirement plan requiring an annuity form of distribution.

Rollover Contributions, Trustee to Trustee Transfers and earnings and losses thereon may be segregated into a separate account for accounting purposes. Unless otherwise instructed in writing by the Employee, Rollover Contributions and Trustee to Trustee Transfers may also be segregated for investment purposes. Rollover Contributions or Trustee to Trustee Transfers shall be subject to the same requirements of this Plan as are applicable to Employer Contributions to the Plan on behalf of the Participant.

4.4 Transfer to Trustee. Employer Contributions for any Plan Year shall be paid to the Trustee within the time prescribed by law, including extensions of time, if any, for the filing of the Employer's federal income tax return for the taxable year. All Employer Contributions shall be subject to the following rules:

(a) Employer Contributions made by a mistake of fact shall be returned to the Employer within one year after the contribution is paid, provided that the Employer discovers the mistake of fact and demands repayment within said year.

(b) Employer Contributions to the Plan are conditioned upon initial qualification of the Plan under Section 401 of the Code provided, however, that the application for qualification is submitted within the time prescribed for filing the Employer's tax return, or such later date as the Secretary may prescribe and, if the Plan does not qualify, contributions made while the Plan did not so qualify shall be returned to the Employer within one year after the date of denial of initial qualification of the Plan.

(c) Employer Contributions to the Plan are conditioned upon their current deductibility under Section 404 of the Code (unless otherwise specified by the Employer) and, to the extent that any contribution is not so deductible, it shall be returned to the Employer within one year after denial of the deduction.

4.5 **Reversion to Employer.** Subject to the provisions in Sections 4.4 and 5.7, principal or income of this Trust shall not be paid or revert to the Employer or be used for any purpose whatsoever other than the exclusive benefit of the Participants or their Beneficiaries.

ARTICLE 5

ALLOCATION OF CONTRIBUTIONS

5.1 **Certification of Contribution and Compensation.** The Employer shall advise the Trustee of the amount of Employer Contributions, if any, to the Trust for each Plan Year.

5.2 **Separate Accounts.** The Employer shall create and maintain a separate account for each Participant and shall credit thereto the amount of Participant Contributions and Employer Contributions made to the Plan on behalf of the Participant, as applicable, as well as income and losses thereon. Within each Participant Contribution account, separate records shall be maintained, as required, for Rollover Contributions, Trustee to Trustee Transfers, if any, and income thereon. The Employer Contribution account shall be separated into two accountings, one for Employer Securities and one for all other investments.

To the extent required by Revenue Procedure 87-22 and any successor thereto, the Trustee shall establish a separate account on behalf of any Participant who is a shareholder of the Employer, and such account shall at no time contain Employer Securities.

5.3 Participants Entitled to an Allocation of Employer Contributions. The Employer Contribution to the Plan for the Plan Year, if any, shall be allocated in accordance with Section 5.4 to the accounts of those Participants to or for whom the Employer paid Compensation during the Plan Year and who satisfy one of the following conditions:

(a) Participants employed by the Employer on the Anniversary Date who completed 1,000 or more Hours of Service for the Employer during the Plan Year (except as provided in Section 10.2);

(b) Participants on an authorized leave of absence on the Anniversary Date; and

(c) Participants who died, retired on or after Normal Retirement Age or came under a Disability during the Plan Year and while in the employment of the Employer.

Notwithstanding the foregoing, a Participant who is included in one or more of the classifications of Section 3.1(b) on the Anniversary Date shall not receive an allocation of the Employer Contribution to the Plan for the Plan Year.

To the extent necessary to satisfy Section 410 of the Code and regulations promulgated thereunder, the Employer shall make an additional allocation in accordance with Section 5.4 as follows:

(1) first, to those Participants employed by the Employer on the Anniversary Date who failed to complete 1,000 Hours of Service during the Plan Year, beginning with the Participant with the greatest number of Hours of Service during such Plan Year;

(2) next, to those Participants who had a Termination of Employment during the Plan Year other than for death, Disability, or retirement, beginning with the Participant with the fewest number of Hours of Service during such Plan Year.

If two or more Participants satisfy the criteria under either (1) or (2) above with the same number of Hours of Service, then all such Participants with the same number of Hours of Service shall receive an allocation.

The foregoing corrective allocations shall not result in a reduced benefit accrual to any Participant and shall be effective for all purposes of the Plan and adopted and implemented on or before the 15th day of the tenth month after the close of the Plan Year in order to be taken into account for the preceding Plan Year.

5.4 Method of Allocation of Contributions. The Employer Contribution shall be allocated to the account of each Participant eligible under the preceding Section, in the proportion equal to the ratio that the Compensation of that Participant during the Plan Year bears to the aggregate Compensation of all eligible Participants during the Plan Year. Compensation earned by an individual before becoming a Participant shall not be considered.

Notwithstanding the foregoing, no portion of the assets of the Plan attributable to (or allocable in lieu of) Employer Securities acquired by the Plan in a sale to which Sections 1042 or 2057 of the Code applies may accrue (or be allocated) directly or indirectly under any plan of the Employer meeting the requirements of Section 401(a) of the Code:

(a) during the Nonallocation Period, for the benefit of:

(i) a Participant who makes an election under Section 1042(a) of the Code with respect to Employer Securities or any decedent if the executor of the estate of such decedent makes a qualified sale to which Section 2057 of the Code applies;

(ii) any individual who is related to the Participant or the decedent (within the meaning of Section 267(b) of the Code); or

(b) the benefit of any other person who owns (after application of Section 318(a) of the Code) more than 25% of:

(i) any class of outstanding stock of the Employer which issued such Employer Securities or of any corporation which is a member of the same controlled group of corporations as the Employer; or

(ii) the total value of any class of outstanding stock of the Employer.

The limitation of paragraph (a)(ii) above shall not apply to any individual if such individual is a lineal descendant of the Participant, and the aggregate amount allocated to the benefit of all such lineal descendants during the nonallocation period does not exceed more than 5% of the Employer Securities (or amounts allocated in lieu thereof) held by the Plan which are attributable to the sale to the Plan by any person related to such descendants in a transaction to which Section 1042 of the Code applied.

A person shall be treated as failing to meet the stock ownership limitation under paragraph (b) above if such person fails such limitation at any time during the one-year period ending on the date of sale of Employer Securities to the Plan, or on the date as of which Employer Securities are allocated to Participants in the Plan.

If, after the Employer Contribution for a Plan Year has been made and allocated, it should appear that, through a mistake of fact, a Participant or Employee received an incorrect allocation, the amount of the mistaken contribution must be returned to the Employer within one year of the contribution.

5.5 Allocation Does Not Vest. The fact that an allocation has been made as hereinbefore provided will not of itself operate to vest in a Participant any right, title or interest in the Trust. Vesting will be accomplished only at the times and on the contingencies hereinafter set forth.

5.6 Valuation of Participant Accounts. As of each Valuation Date, but no less frequently than each Anniversary Date, the Employer shall take the following steps to determine the value of each Participant's account:

(a) charge the account of each Participant who has received a distribution since the last Valuation Date with any such distribution;

(b) obtain from the Trustee the fair market value of the assets of the Trust Fund as of the Valuation Date;

(c) allocate the earnings and losses obtained in (b) above to each Participant's account in either the ratio that such account balance bears to all account balances or, if a share or unit accounting method is used, actual earnings and losses attributable to such shares or units held in each Participant's account;

(d) allocate the Employer Contribution actually made to the Trust since the last Valuation Date to the Participant accounts in the manner provided in this Article and add any Participant Contributions made by a Participant since the last Valuation Date to the Participant Contribution account.

If an accrual or balance-forward method of Participant accounting is used, the Employer may, on a uniform and consistent basis, allocate to the accounts of Participants all or a portion of Participant and Employer Contributions made to the Trust as of the last Valuation Date and add such amount to the amount obtained under (a) above and add the remaining balance of such contributions (if any) to Participant accounts under step (d) above to provide for an apportionment of earnings and losses on such contributions during such period.

Notwithstanding the foregoing, the performance of any or all of the preceding functions may be delegated to the Trustee or other delegate if the Employer and such delegate agree.

5.7 Limitations on Allocations.

(a) If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415(l)(2) of the Code, maintained by the Employer, or a simplified employee pension, as defined in Section 408(k) of the Code, maintained by the Employer, which provides an Annual Addition, the amount of Annual Additions which may be credited to the Participant's account for any Limitation Year will not exceed the lesser of the maximum permissible amount or any other limitation contained in this Plan. If the Employer Contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the maximum permissible amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the maximum permissible amount.

(b) Prior to determining the Participant's Net Compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant on the basis of a reasonable estimation of the Participant's Compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

(c) As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year will be determined on the basis of the Participant's Net Compensation for the Limitation Year.

(d) Any excess Annual Additions allocated to a Participant should be corrected through the Employee Plans Compliance Resolution System or such other correction method allowed by statute, regulations or regulatory authorities.

(e) This paragraph (e) applies if, in addition to this Plan, the Participant is covered under another qualified defined contribution plan maintained by the Employer, a welfare benefit fund maintained by the Employer, an individual medical account maintained by the Employer, a Code Section 403(b) annuity contract treated as maintained by the Employer pursuant to Reg. §1.415-8(d)(2), or a simplified employee pension maintained by the Employer, that provides an Annual Addition during any Limitation Year. The Annual Additions which may be credited to a Participant's account under this Plan for any such Limitation Year will not exceed the maximum permissible amount reduced by the Annual Additions credited to a Participant's account under the other qualified defined contribution plans, welfare benefit funds, individual medical accounts, and simplified employee pensions for the same Limitation Year. If the Annual Additions with respect to the Participant under other qualified defined contribution plans, welfare benefit funds, individual medical accounts, and simplified employee pensions maintained by the Employer are less than the maximum permissible amount and the Employer Contribution that would otherwise be contributed or allocated to the Participant's account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the maximum permissible amount. If the Annual Additions with respect to the Participant under such other qualified defined contribution plans, welfare benefit funds, individual medical accounts, and simplified employee pensions in the aggregate are equal to or greater than the maximum permissible amount, no amount will be contributed or allocated to the Participant's account under this Plan for the Limitation Year. Prior to determining the Participant's Net Compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant in the manner described in paragraph (b). As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year will be determined on the basis of the Participant's Net Compensation for the Limitation Year. If reducing contributions and allocations under this Plan to prevent an excess Annual Addition under Section 415 of the Code conflicts with provisions of any other plan or plans of the Employer, the provisions of such other plan or plans shall govern.

(f) If, pursuant to paragraph (e) or as a result of the allocation of forfeitures, a Participant's Annual Additions under this Plan and such other plans would result in an excess amount for a Limitation Year, the excess amount will be deemed to consist of the Annual Additions last allocated, except that Annual Additions attributable to a simplified employee pension will be deemed to have been allocated first, followed by Annual Additions to a welfare benefit fund or individual medical account, regardless of the actual allocation date.

(g) If an excess amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the excess amount attributed to this Plan will be the product of:

(1) the total excess amount allocated as of such date, times

(2) the ratio of (i) the Annual Additions allocated to the Participant for the Limitation Year as of such date under this Plan to (ii) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all the other qualified defined contribution plans.

Any excess amount attributed to this plan will be disposed in the manner described in paragraph (d) above.

(h) For purposes of applying the limitations of this section for a Limitation Year, all defined contribution plans (as defined in Reg. §1.415(c)-1(a)(2)(i) and without regard to whether the plan(s) have been terminated) ever maintained by the Employer and all defined contribution plans of a predecessor Employer (in the Limitation Year in which such predecessor Employer is created) under which a Participant receives Annual Additions are treated as one defined contribution plan. The Annual Additions under a formerly affiliated plan (as defined in Reg. §1.415(f)-1(b)(2)(ii)) of the Employer are taken into account for purposes of applying the limitations of this section for the Limitation Year in which the cessation of affiliation took place. The limitations of this section are not exceeded for the first Limitation Year in which two or more existing plans, which previously were not required to be aggregated pursuant to Reg. §1.415(f), are aggregated, provided that no Annual Additions are credited to a Participant after the date on which the plans are required to be aggregated if the Annual Additions already credited to the Participant in the existing plans equal or exceed the maximum permissible Annual Addition. If the Employer maintains a multiemployer plan, as defined in Section 414(f) of the Code, and the multiemployer plan so provides, only the Annual Additions under the multiemployer plan that are provided by the Employer shall be treated as Annual Additions provided under a plan maintained by the Employer for purposes of this section.

(i) Notwithstanding anything contained herein to the contrary, the Annual Addition that may be contributed or allocated to a Participant's account under this Plan or any other defined contribution plan maintained by the Employer or any Affiliate for any Limitation Year shall not exceed the lesser of:

(1) $40,000, as adjusted for increases in the cost-of-living under Section 415(d) of the Code, or

(2) 100% of the Participant's Net Compensation for the Limitation Year.

The Net Compensation limit referred to in (2) shall not apply to an individual medical benefit account (as defined in Section 415(l) of the Code; or a post-retirement medical benefits account for a Key Employee). If a Limitation Year consists of less than 12 months, the maximum Annual Addition shall not exceed the amounts listed above multiplied by the following fraction:

$$\frac{\text{number of months in short Limitation Year}}{12}$$

(j) Notwithstanding the foregoing, if no more than one-third of the Employer Contribution for a Limitation Year is allocated to Highly Compensated Participants, then Employer Contributions applied to pay interest on an Exempt Loan and forfeitures of Employer Securities acquired through an Exempt Loan shall be disregarded in computing the Annual Addition.

ARTICLE 6

INVESTMENT IN EMPLOYER SECURITIES

6.1 Borrowing from Disqualified Persons. The Trustee shall have full power and authority to borrow money, to assume indebtedness, extend mortgages, and encumber Plan assets by mortgage or pledge; provided, however, the following terms and conditions shall apply to all Exempt Loans:

(a) The Trustee shall use the proceeds of the Exempt Loan within a reasonable time after receipt only for the following purposes:

(i) to acquire Employer Securities;

(ii) to pay such Exempt Loan; or

(iii) to pay a prior Exempt Loan.

(b) An Exempt Loan shall be primarily for the benefit of Participants and their Beneficiaries. The interest rate of the Exempt Loan shall not be more than a reasonable rate of interest, and the interest rate for the Exempt Loan and the price of Employer Securities to be acquired with the Exempt Loan proceeds shall not be such that Plan assets might be drained off. The terms of the Exempt Loan shall, at the time the Exempt Loan is made, be at least as favorable to the Plan as the terms of a comparable loan resulting from arms-length negotiations between independent parties.

(c) Any collateral the Trustee pledges to the Exempt Loan lender shall consist only of the assets purchased with the borrowed funds and those assets the Trust used as collateral on a prior Exempt Loan repaid with the proceeds of the current Exempt Loan.

(d) The Exempt Loan shall be for a specific term and may not be payable at the demand of any person, except in the case of default.

(e) The Exempt Loan lender shall have no recourse against the Plan and Trust under the Exempt Loan except with respect to such collateral given for the Loan, Employer Contributions (other than contributions of Employer Securities) that the Employer makes to the Trust to meet its obligations under the Loan, and earnings attributable to such collateral and the investment of such contributions. The payment made with respect to an Exempt Loan by the Plan during the Plan Year shall not exceed an amount equal to the sum of Employer Contributions and earnings received during or prior to the Plan Year, less such payments in prior years. The Employer and the Trustee shall account separately for such contributions and earnings in the books of account of the Plan until the Exempt Loan is repaid.

(f) In the event of default of the Exempt Loan, the value of Plan assets transferred in satisfaction of the Loan shall not exceed the amount of the default. If the lender is a Disqualified Person, the Loan shall provide for transfer of Plan assets upon default only upon and to the extent of the failure of the Plan to meet the payment schedule of the Loan. For purposes of this Section, the making of a guarantee does not make a person a lender.

6.2 Release of Encumbered Employer Securities. Employer Securities acquired by the Plan from proceeds of an Exempt Loan shall be added to and maintained in a suspense account and shall be treated as unallocated assets of the Plan. Any unrealized appreciation or depreciation of Employer Securities held in the suspense account shall not be credited or debited to Participant accounts.

With respect to each Exempt Loan, the Trustee shall designate either of the following methods to determine the number of shares of Employer Securities acquired with such Exempt Loan to be released in each Plan Year during the term of such Exempt Loan:

(a) For each Plan Year during the duration of the loan, the number of shares of Employer Securities released shall be determined solely with reference to principal payments, provided, however, that if this method is designated, (i) annual payments of principal and interest shall be paid at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for 10 years, (ii) the Exempt Loan shall not be renewed or extended beyond a 10-year term, including the original term of the Exempt Loan, and (iii) interest on the Exempt Loan shall be calculated and paid in accordance with standard amortization tables; or

(b) For each Plan Year during the duration of the loan, the number of shares of Employer Securities released shall equal the number of encumbered shares held immediately before release for the current Plan Year multiplied by a fraction, the numerator of which is the amount of principal and interest paid for the Plan Year and the denominator of which is the sum of the numerator plus the principal and interest to be paid for all future Plan Years.

If the collateral includes more than one class of Employer Securities, the number of shares of Employer Securities of each class to be released for a Plan Year must be determined by applying the same fraction to each such class. Shares of Employer Securities that are released from encumbrance pursuant to the foregoing provisions shall be treated as withdrawn from the suspense account at the time of such release. The withdrawn shares shall be allocated to the accounts of eligible Participants in the same manner as Employer Contributions are allocated under Section 5.4. The withdrawn shares shall be allocated on the basis of actual shares of Employer Securities, or dollar values expressed as shares of Employer Securities.

Income earned with respect to Employer Securities in the suspense account shall be used, at the discretion of the Employer and to the extent permitted by law, to repay the Exempt Loan used to purchase such Employer Securities. Any income that is not so used must be allocated as income of the Plan.

Notwithstanding the foregoing, upon the spin-off of a division, operating unit, or one or more Affiliates of the Employer into a separate corporation, the proceeds of the sale of any shares of such corporation which are held in the Suspense Account following such spin-off may be used to purchase additional shares of Employer Securities or to repay the Exempt Loan.

6.3 Stock Dividends, Splits, Rights, Warrants, Options, and Other Reorganizations. Employer Securities received by the Trustee due to a stock split or dividend or as a result of a reorganization or other recapitalization shall be allocated in the same manner as the stock to which it is attributable has been allocated. In the event any rights, warrants, or options are issued with respect to Employer Securities, the Trustee shall exercise them to the extent that cash is then available and to the extent that such exercise is considered to be in the best interests of Participants. Any rights, warrants, or options on Employer Securities that are not exercised may be sold by the Trustee and the proceeds treated as a cash dividend received with respect to Employer Securities.

6.4 Voting Rights. If the Employer Securities contributed to the Plan by the Employer or acquired by the Trustee are a Registration-Type Class of Employer Securities or are contributed or acquired in a transaction subject to Section 133 of the Code, then each Participant shall be entitled to direct the Trustee as to the manner in which Employer Securities allocated to the Participant's account and entitled to vote are to be voted.

If the Employer Securities are not a Registration-Type Class of Employer Securities, then each Participant or Beneficiary shall be entitled to direct the Trustee as to the manner in which Employer Securities allocated to the Participant's account are to be voted with respect to the approval or disapproval of any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all assets of a trade or business, or similar transactions as the Secretary of the Treasury may prescribe in regulations.

The procedure for voting Employer Securities shall be as follows:

(a) With respect to Employer Securities to be voted by Participants, before any meeting of shareholders of the Employer, there shall be sent to each Participant a copy of the proxy solicitation material for the meeting, together with a form requesting confidential instructions to the Trustee on how to vote the Employer Securities credited to the Participant's account and which the Participant is entitled to vote. Instructions received from Participants by the Trustee shall be held in the strictest confidence and shall not be divulged or released to any person. Upon receipt of such instructions, the Trustee shall vote the Employer Securities as instructed.

(b) In the exercise of voting rights, allocated shares of Employer Securities held for the benefit of Participants who do not give timely voting instructions shall be voted by the Trustee.

With respect to all corporate matters upon which Participants are not entitled to vote as described above, the Employer shall direct the Trustee on how to vote Employer Securities. Employer Securities held in the suspense accounts described in Sections 5.7 or 6.2 shall be voted by the Trustee as directed by the Employer, provided that such directions are consistent with applicable law and the Trustee's obligations under Section 12.1 of the Plan.

6.5 Tender or Exchange Offers. In the event of the commencement of a tender or exchange offer (an "Offer") for shares of Employer Securities, the Trustee shall determine whether to tender or exchange shares of Employer Securities held by the Plan, to the extent permitted under the terms of such Offer. Such determination by the Trustee pursuant to this Section shall apply to both allocated shares of Employer Securities and to Employer Securities held in the suspense accounts described in Sections 5.7 or 6.2, provided the Trustee's actions are consistent with applicable law and the Trustee's obligations under Section 12.1 of the Plan.

Any securities received by the Trustee as a result of a tender or exchange of shares of Employer Securities shall be held, and any cash so received shall be invested in short-term investments pending any reinvestment by the Trustee, as it may deem appropriate, consistent with the purposes of the Plan. If an Offer is limited so that all of the shares subject to tender or exchange cannot be sold or exchanged, the shares sold or exchanged shall be reduced pro rata in the same ratio that the number of shares actually sold or exchanged bears to the total number of shares tendered or exchanged. Shares sold or exchanged shall be deemed to come first out of the shares allocated to Participants and only after all of those shares have been sold or exchanged, out of the suspense accounts.

6.6 Diversification of Investment. Notwithstanding anything in the Plan to the contrary, each Qualified Participant may direct the Trustee as to the investment of 25% of the value of the Participant's account balance attributable to Employer Securities within 90 days after the Anniversary Date of each Plan Year during the Participant's Qualified Election Period. Within 90 days after the Anniversary Date of the last Plan Year in the Participant's Qualified Election Period, a Qualified Participant may direct the Trustee as to the investment of 50% of the value of the Participant's account balance attributable to Employer Securities. Such election shall be subject to the following:

(a) The Participant's direction shall be in writing and shall be effective no later than 180 days after the Anniversary Date of the Plan Year to which the direction applies.

(b) The Trustee shall offer at least three investment options, other than Employer Securities, not inconsistent with regulations issued by the Secretary of the Treasury, into which investment of the Participant's account can be directed either in this Plan or another qualified plan of the Employer.

(c) If the Trustee does not offer such investment options or if the Trustee cannot diversify such account, the Trustee may elect to distribute to the Participant the portion of the account for which diversification was elected in cash or in Employer Securities. If Employer Securities are distributed, the put option provided in Section 6.8 shall apply.

(d) The percentage of diversification elected shall be determined based on the value of the Participant's account balance attributable to Employer Securities as of the Anniversary Date of the Plan Year to which the direction applies, less the value of any previous amount diversified in accordance with this Section.

6.7 Restrictions on Buy-Sell Arrangements. Except as provided in this Article, no Employer Securities acquired with the proceeds of an Exempt Loan may be subject to a put, call, or other option, or buy-sell or similar arrangement while held by or when distributed from the Plan, whether or not the Plan is then a leveraged employee stock ownership plan. Also, the Plan shall not be obligated to acquire Employer Securities from a particular security holder at an indefinite time determined upon the happening of any event.

6.8 Put Option. If Employer Securities allocated to the account of a Participant are not readily tradable on an established market, each Participant or Beneficiary who receives a distribution of such Employer Securities from the Plan shall have the right to require that the Employer repurchase the Employer Securities for Value. This right shall be referred to as a "put option." The put option granted hereunder shall be exercisable by the Participant or Beneficiary for a period of 60 days following the date of the distribution of the Employer Securities and, if the put option is not exercised within such 60-day period, for an additional period of 60 days commencing on the first day of the following Plan Year. The Employer may grant the Trust an option to assume the Employer's rights and obligations to acquire Employer Securities under the put option provided above.

If the Employer is a bank, as defined in Section 581 of the Code, which is prohibited by law from redeeming or purchasing Employer Securities, then a Participant may, in the discretion of the Employer, receive distribution in cash. If Employer Securities are distributed to the Participant instead of cash, then the terms of Section 6.11 shall apply.

6.9 Right of First Refusal and Call Option. The Employer shall have the right to purchase Employer Securities distributed out of this Plan under the following conditions:

(a) A Qualified Holder who desires to dispose of Employer Securities that are not readily tradable on an established securities market shall first offer to sell the Employer Securities to the Employer. In the case of a bona fide offer by a third party, the offer to the Employer shall be for the Value of the Employer Securities and subject to the terms and conditions of Section 6.10, unless the selling price and terms offered to the Participant by the third party are more favorable to the Participant, in which event the selling price and terms of the offer of the third party shall apply. The Employer shall give written notice to the offering Qualified Holder of its acceptance of the Qualified Holder's offer within 14 days after the Qualified Holder has given written notice to the Employer, or the Employer's rights hereunder shall lapse.

(b) In the case of an Employer whose charter or bylaws restrict the ownership of substantially all outstanding Employer Securities to Employees or to a Trust described in Section 401(a) of the Code, or if the Employer is an S Corporation, the Employer shall have a right to require that any Employer Securities distributed to a Participant be resold to the Employer for Value. This right, referred to as a "call option" shall be exercised upon terms specified in Section 6.10.

The Employer may grant the Trust an option to assume the Employer's rights and obligations with respect to all or any part of the Employer Securities offered to the Employer under this Section.

6.10 Exercise of Option. If a Participant receives a distribution in the form of Employer Securities that is subject to the put option provided in Section 6.8, or if the Employer or Trustee exercise the right of first refusal or call option under Section 6.9 to purchase a Qualified Holder's Employer Securities, the following rules shall apply:

(a) If the Participant or Beneficiary receives a Total Distribution, the purchaser shall, at its option, pay either the total purchase price or 20% of the total purchase price in cash at the closing. If an installment purchase is elected, the purchaser shall evidence the balance of the purchase price by executing a promissory note, delivered to the selling Qualified Holder at the closing. The purchaser shall provide adequate security for the unpaid amounts under the note. The note shall bear interest at a reasonable rate, and shall provide for not more than 5 equal annual installments with interest payable with each installment, the first installment being due and payable one year after the option is exercised. The note further shall provide for acceleration in the event of 30 days' default of the payment on the interest or principal and shall grant to the maker of the note the right to prepay the note in whole or in part at any time or times without penalty.

(b) If the Participant or Beneficiary receives Employer Securities as part of an installment distribution, the Purchaser shall pay the total purchase price of the Employer Securities received in the installment distribution at the closing.

(c) As used herein, "closing" shall mean the place, date, and time to which the selling Qualified Holder and the purchaser may agree for purposes of a sale and purchase under this Section, provided that such closing shall take place not later than 30 days after the exercise of the option.

6.11 Substitute Offeree. If the Employer is prohibited by federal or State law or by a governing regulatory agency from buying or offering to buy Employer Securities, there shall be substituted for each reference in this Article to "Employer" the following: "an Affiliate or shareholder of the Employer (other than the Plan) that has a substantial net worth which is reasonably expected to remain substantial"; and the Employer shall be given the name or names of such person from time to time.

6.12 Notice. A person shall have given notice permitted or required hereunder when such person deposits the notice in the United States mail, first class, postage prepaid, addressed to the person entitled to the notice at the address currently listed in the records of the Employer. Any person affected by this Article shall have the obligation of notifying the Employer of any change of address.

6.13 Transfer Restriction. Except upon the prior written consent of the Employer and as long as Employer Securities are not readily tradable on an established securities market, no Qualified Holder shall sell, assign, give, pledge, encumber, transfer, or otherwise dispose of any Employer Securities acquired from this Plan without complying with the terms of Section 6.9. If a Qualified Holder pledges or encumbers any Employer Securities without the Employer's prior written consent, any security holder's rights with respect to such Employer Securities shall be subordinate and subject to the rights of the Employer.

6.14 Rights Nonterminable. The rights and protections afforded by Sections 6.7, 6.8, 6.9 and 6.10 of this Article shall be nonterminable.

6.15 Independent Appraisal. All determinations of Value of Employer Securities that are not readily tradable on an established securities market, with respect to activities carried on by the Plan, shall be made by an Independent Appraiser.

6.16 Employer Securities of S Corporation. Notwithstanding Section 5.4, if the Plan holds Employer Securities consisting of stock in an S corporation, no portion of the assets of the Plan attributable to (or allocable in lieu of) such Employer Securities may, during a Nonallocation Year, accrue (or be allocated directly or indirectly under any plan of the Employer meeting the requirements of Section 401(a) of the Code) for the benefit of any Disqualified Person pursuant to an Impermissible Accrual or an Impermissible Allocation. If the Plan fails to meet the foregoing requirements, the Plan shall be treated as having distributed to any Disqualified Person the amount of the prohibited allocation at the time of such allocation.

In the case of a person who owns Synthetic Equity in the S corporation, except to the extent provided in regulations, the shares of stock in such corporation on which such Synthetic Equity is based shall be treated as outstanding stock in such corporation and Deemed-Owned Shares of such person if such treatment of Synthetic Equity of one or more such persons results in:

(1) the treatment of any person as a Disqualified Person, or

(2) the treatment of any year as a Nonallocation Year.

For purposes of this paragraph, Synthetic Equity shall be treated as owned by a person in the same manner as stock is treated as owned by a person under the rules of paragraphs (2) and (3) of Section 318(a) of the Code. If, without regard to this paragraph, a person is treated as a Disqualified Person or a year is treated as a Nonallocation Year, this paragraph shall not be construed to result in the person or year not being so treated.

(a) Notwithstanding any other provision of this Plan, to the extent the Employer, Committee and/or the Trustee determine that this Section 6.16 requires action on the part of the Committee to prevent the Plan from experiencing a Nonallocation Year as a result of actions taken by the Employer, Committee or Trustee, including, but not limited to, the allocation of any portion of the Trust Fund to one or more Participants in any Plan Year, the Committee may, in its sole discretion, transfer a pro rata portion of the assets of any Participants' account that will cause such Nonallocation Year to (a) any other retirement plan sponsored by the Employer that is qualified under Code Section 401(a); or (b) a newly formed "stock bonus plan" formed as part of this Plan that is authorized by the Employer and the Trustee as of, or prior to, the date of such transfer.

(b) Notwithstanding any other provision of this Plan, the accounts held under any "stock bonus plan" formed pursuant to Section 6.16(a) shall be administered by the Committee and the Trustee in a manner consistent with the Plan's provisions generally, provided, however, that such portion of the Plan shall at all times:

(i) Not qualify under Section 4975(e)(7) of the Code or Reg. §54-4975-11(a)(5) as an employee stock ownership plan;

(ii) Meet the definition of an “individual account plan” under Section 407(d)(3) of the Employee Retirement Income Security Act of 1974 and be permitted to invest in Employer Securities pursuant to Section 407(d)(5) of the Employee Retirement Income Security Act of 1974;

(iii) Maintain an account for any Participant participating under this portion of the Plan and allocate all Employer Contributions to such accounts in a manner that complies with Section 401(a)(4) of the Code and the regulations thereunder;

(iv) Be subject to unrelated business income tax pursuant to Section 512 of the Code to the extent of such portion of the Plan is invested in Employer Securities; and

(v) Be identified as a separate portion of the Plan for all annual reporting and disclosure purposes required under the Code and the Employee Retirement Income Security Act of 1974.

6.17 Effect of Code and Regulations Nonterminable. Notwithstanding the fact that this Plan ceases to be a leveraged employee stock ownership plan, Employer Securities acquired with the proceeds of an Exempt Loan shall continue, after the Trustee pays the Exempt Loan, to be subject to the provisions of Section 4975(e)(7) of the Code and Section 54.4975-7(b)(4)(10) and (12) of the Treasury Regulations, as the same may be amended from time to time.

ARTICLE 7

VESTING

7.1 Vesting of Participant Contributions. A Participant shall have a fully vested and nonforfeitable interest in Participant Contributions allocated to the Participant’s account, and earnings thereon, at all times.

7.2 Vesting of Employer Contributions.

(a) A Participant shall have a fully vested and nonforfeitable interest in Employer Contributions allocated to the Participant’s account, and earnings thereon, upon the occurrence of any one of the following events:

(i) attainment of the Participant’s Normal Retirement Age prior to or during employment with the Employer;

(ii) Disability of the Participant occurring during employment with the Employer;

(iii) death of the Participant occurring during employment with the Employer;

(iv) termination or partial termination of the Plan or the Trust if the Participant's rights or benefits under the Plan or Trust are affected by said termination or partial termination;

(v) complete discontinuance of Employer Contributions to the Plan; or

(vi) a Change in Control of the Employer. For purposes of this subsection (vi), "Change in Control" of the Employer shall mean a change in control which would be required to be reported in response to Item 5(f) on Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Employer is then subject to such reporting requirement and which does not arise from a transaction or series of transactions authorized, recommended or approved by formal action taken by the Board of Directors, as defined herein, including, without limitation, if any "person" (as such term is sued in Sections 13(d) and 14(d) of the Exchange Act) becomes a "beneficial owner" (as defined in Rule 13(d)3 under the Exchange Act), directly or indirectly, of securities of the Employer representing 20% or more of the combined voting power of the Employer's then-outstanding securities, or if there ceases to be a majority of the Board of Directors, as defined herein, comprised of individuals described below.

For purposes of this subsection (vi), "Board of Directors" shall mean: (A) individuals who on the effective date hereof, constituted the Board of the Employer; and (B) any new director who subsequently was elected or nominated for election by a majority of the directors who held such office immediately prior to a Change in Control.

(b) Effective for a Participant who receives an allocation of Employer Contributions for the Plan Year beginning January 1, 2007 or any subsequent Plan Year, in addition to the rights under (a) above, such Participant shall have a vested and nonforfeitable interest in Employer Contributions allocated to the Participant's account, and earnings thereon, based on the Participant's Years of Service as determined in Section 7.3 in accordance with the following schedule:

Participant's Years of Service	Vested and Nonforfeitable Percentage
Less than 2 years	0%
2 years but less than 3 years	20%
3 years but less than 4 years	40%
4 years but less than 5 years	60%
5 years but less than 6 years	80%
6 or more years	100%

Participants whose Termination of Employment occurred on or before December 31, 2006 shall be subject to the vesting schedule in effect when the Termination of Employment occurred. A Participant whose Termination of Employment occurs during the Plan Year beginning January 1, 2007, but who is not eligible for an allocation of Employer Contributions for said Plan Year, shall be subject to the vesting schedule in effect prior to January 1, 2007.

Notwithstanding the foregoing effective date of the vesting schedule change, if there was an Exempt Loan outstanding on September 26, 2005, the change in vesting schedule described above will not apply to any Plan Year beginning before the earlier of the date on which the Exempt Loan (i) is fully repaid, or (ii) was, as of September 26, 2005, scheduled to be fully repaid.

(c) Notwithstanding the vesting schedule set forth under (b) above, a Participant's vested and nonforfeitable interest in Employer Contributions allocated to the Participant's account and earnings thereon shall not be less than the vested and nonforfeitable interest attained by that Participant immediately prior to the later of the date of adoption or the effective date of any amendment to the vesting schedule under this Plan, and any such amendment shall apply only to Participants who are credited with an Hour of Service on or after the date on which such amendment becomes effective. In addition, a Participant's vested and nonforfeitable interest shall not be reduced if the Plan becomes Top Heavy and later ceases to be Top Heavy.

Each Participant with at least 3 Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have the Participant's vested and nonforfeitable interest in such contributions computed under the Plan without regard to such change. The period during which the election may be made shall commence with the date the change is deemed to be made and shall end 60 days after the latest of:

(i) the date the amendment is adopted;

(ii) the date the amendment becomes effective; or

(iii) the date the Participant is issued written notice of the change by the Employer.

Notwithstanding the foregoing, for an amendment adopted after August 9, 2006, with respect to a Participant's account attributable to Employer Contributions accrued as of the later of the adoption or the effective date of the amendment and earnings, the vested percentage of the Participant will be the greater of the vested percentage under the old vesting schedule or the vested percentage under the new vesting schedule.

7.3 Determination of Years of Service. An Employee shall be credited with one Year of Service for purposes of the preceding Section for each Plan Year during which the Employee performs 1,000 or more Hours of Service for the Employer and any Affiliate, in accordance with the following rules:

(a) An Employee's Years of Service prior to and after the Effective Date shall be counted.

(b) An Employee's Years of Service prior to and after the Plan Year in which the Employee attained age 18 shall be counted.

(c) An Employee's Years of Service performed after 5 consecutive one-year Breaks in Service shall not be considered in computing the vested and nonforfeitable percentage of the Employee's account attributable to Employer Contributions made before the Employee's initial Break in Service.

(d) In the case of a nonvested Participant who has incurred a Break in Service, and subsequently performs Years of Service for the Employer, such a Participant's Years of Service with the Employer prior to the Break in Service shall be considered in computing the vested and nonforfeitable percentage of the Participant's account attributable to Employer Contributions made after the Break in Service unless the Participant's consecutive one-year Breaks in Service equal or exceed the greater of 5 or the aggregate number of the Participant's Years of Service preceding the initial Break in Service. If any Years of Service are not required to be taken into account by reason of Breaks in Service under the preceding sentences, such Years of Service shall not be taken into account thereafter.

(e) A Leased Employee shall be credited with Years of Service for vesting beginning on the date the Leased Employee first performed services for the Employer even if such individual is not eligible to participate in the Plan.

(f) If the Employer maintains the Plan for a predecessor employer, service with such employer shall be treated as service for the Employer.

(g) Years of Service with MiLAN Technology Inc. prior to March 25, 2002 will be treated as service for the Employer. Years of Service with Image Systems Corporation prior to March 24, 2004 shall be treated as service for the Employer.

7.4 Forfeitures and Restoration of Nonvested Amounts. The nonvested portion of a Participant's account shall be considered a forfeiture as of the end of the Plan Year in which the Participant incurs 5 consecutive one-year Breaks in Service, or upon an actual or deemed distribution of benefits under Section 8.5, if earlier. Employer Securities allocated to a Participant's account shall be forfeited only after other account assets, and if more than one class of Employer Securities are allocated to the account, each such class shall be forfeited in equal proportions. Such forfeitures shall be allocated as of the Anniversary Date of the Plan Year in which the forfeiture occurs. The forfeited amounts shall be first used to restore amounts forfeited by rehired Participants as described in the following paragraph, then, at the Employer's discretion, used to pay any administrative expenses of the Plan as described in Section 13.2(o), and then added to the Employer Contribution for such Plan Year for allocation among Participants pursuant to Section 5.4.

If a Participant receives a distribution pursuant to Section 8.5 which is less than the value of the Participant's account balance derived from Employer Contributions and resumes employment covered under this Plan, the Participant's account balance derived from Employer Contributions will be restored to the amount on the date of distribution, without interest, if the Participant repays to the Plan the full amount of the distribution on or before the earlier of the following dates:

(a) the date by which the Participant incurs 5 consecutive one-year Breaks in Service following the date of distribution; or

(b) the date which is 5 years after the first date the Participant is subsequently reemployed.

If the amount to be restored to the Participant's account under the preceding sentence has been previously reallocated as provided in this Section, such amount shall be obtained, first, from other forfeitures, and next, from an additional Employer Contribution. If a Participant who received a distribution later becomes eligible to receive a distribution of the restored Employer Contribution before the Participant is fully vested, the vested percentage of the Participant's account upon a subsequent distribution shall be an amount "X" determined under the formula: X=P(AB+D)-D. For purposes of applying the formula, P is the Participant's vested percentage as of the time the formula is being applied; AB is the balance of the account attributable to Employer Contributions at that time; and D is the amount of Employer Contributions previously distributed to the Participant. The Employer shall maintain the records necessary to apply such formula.

ARTICLE 8

PAYMENTS OF BENEFITS

8.1 **<u>Notice</u>.** The Employer shall furnish each Distributee with a written statement of the terms, conditions and forms of payment from the Trust.

8.2 Amount of Benefits and Valuation. Benefits under the Plan shall be paid solely from the Trust Fund and the amount payable to a Participant shall equal the fair market value of the vested portion of the Participant's account as of the Valuation Date described in Section 8.5.

8.3 Mode of Payment. Distribution of a Participant's account shall be made to a Participant under one of the following modes of settlement which shall be selected by the Participant, or the Participant's designated Beneficiary if the Participant dies before commencement of benefits:

(a) By payment in a single lump sum.

(b) By payment in the form of annual or more frequent installments as may be conveniently determined. Installments shall be payable over a period that does not exceed the life expectancy of the Participant or the joint life expectancy of the Participant and the Participant's Beneficiary, subject to the Employer setting limitations on the number of years over which benefits may be paid in the event installments would be less than $100 per month.

In all events, the amount of each distribution shall not be less than the amount required to be distributed under Article 9.

Notwithstanding any provision of the Plan to the contrary, a Distributee may elect, at the time and in the manner prescribed by the Employer, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

If distribution of the Participant's Beneficial Interest has commenced and the Participant dies before the entire interest has been distributed, the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution in effect at the date of the Participant's death.

The decision of the Participant as to the mode of settlement shall be final and the Employer shall not be liable to the recipient (or to any heir, Beneficiary, or representative of the Participant, or of the recipient if other than the Participant) for such decision notwithstanding the fact that another mode of settlement would have resulted in a greater benefit.

Notwithstanding any provision in this Plan to the contrary, investment elections, changes or transfers, withdrawals decisions, and any other decision or election by a Participant (or Beneficiary) under this Plan may be accomplished by electronic or telephonic means, which includes but is not limited to the Internet, and which are not otherwise prohibited by law and which are in accordance with procedures and/or systems approved or arranged by the Employer or its delegates.

8.4 Medium of Payment. Except as otherwise provided in this Section, distribution of a Participant's Beneficial Interest from the Plan shall be made in the form of full shares of Employer Securities and cash for fractional shares, subject to the rights of the Employer under Article 6. If more than one class of Employer Securities are allocated to the Participant's account, each such class shall be distributed in equal proportions. To the extent that the Participant's account has been diversified in accordance with Section 6.6, such Participant shall not receive benefits in the form of Employer Securities. All certificates of Employer Securities (other than a Registration-Type Class of Employer Securities) distributed under the Plan and subject to transfer limitations shall be endorsed as follows:

> "Notice is hereby given that the sale, transfer, or other disposition of the shares of capital stock represented by this certificate is subject to certain restrictions set forth in Article 6 of the Communications Systems, Inc. Employee Stock Ownership Plan and Trust; copies of the Plan and Trust are on file at Communications Systems, Inc."

If the Distributee so requests, distribution of the Participant's Beneficial Interest shall be in cash, provided that the Trustee determines, in its discretion, that sufficient cash is available to make all cash distributions then required by the terms of the Plan or as requested by Distributees, and to meet all liabilities under any Exempt Loans for the next 12 months which are not provided for by Employer Contributions or otherwise. Notwithstanding the foregoing, and except as provided in Section 6.9(b), the Employer may make distributions only in the form of cash:

(a) to the extent that the Employer has elected S corporation status;

(b) if the Employer's articles or bylaws restrict substantial ownership of Employer Securities to Employees or this Trust; or

(c) if the Plan is terminated in connection with a merger or sale of all (or substantially all) the Employer Securities of the Employer, resulting in the Plan ceasing to be an employee stock ownership plan under Section 4975(e)(7) of the Code.

8.5 **Time for Payment.** The Employer shall authorize the payment of benefits from the Plan to a Distributee to be made or begin as soon as administratively feasible following the Participant's Termination of Employment and the Employer's receipt of the Distributee's distribution request.

Unless the Participant elects a later commencement date, no payment of benefits shall be made or begin later than 60 days after the close of the Plan Year in which the later of the following events occurs:

(a) the Participant's Normal Retirement Age; or

(b) the Participant's Termination of Employment with the Employer.

In no event shall the distribution be made or begin later than the Participant's Required Beginning Date.

If a Participant has a Termination of Employment, and the value of the Participant's vested account balance (including both Participant and Employer Contributions) is not greater than $1,000 ($5,000 prior to March 28, 2005), the Employer shall authorize the distribution of the vested portion of such account balance prior to the Participant's attainment of age 62 or Normal Retirement Age, whichever is later, without the consent of the Participant. A Participant with an Employer Contribution account that is 0% vested shall be deemed to have received a distribution under this paragraph upon Termination of Employment. For purposes of determining whether a Participant's vested account balance is $1,000 or less, the value of a Participant's nonforfeitable account balance shall include that portion of the account balance that is attributable to Rollover Contributions (and earnings allocable thereto) within the meaning of sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code.

If a Participant has a Termination of Employment, and the value of the Participant's vested account balance (including both Participant and Employer Contributions) exceeds $1,000 ($5,000 prior to March 28, 2005), the Employer shall authorize the distribution of the vested portion of such account balance prior to the Participant's attainment of age 62 or Normal Retirement Age, whichever is later, only with the written consent of the Participant, and when required, the Participant's spouse. Prior to receiving the Participant's consent, the Employer shall notify the Participant and the Participant's spouse, if required, of the right to defer any distribution and of the optional forms of benefit available under the Plan. Such notification shall be furnished not less than 30 days nor more than 180 days prior to the day on which a distribution is made or first begins. No distribution shall be made until 30 days after such notice is given unless the Participant and the Participant's spouse, if required, consent to an earlier distribution.

If a Participant dies before the distribution of the Participant's Beneficial Interest has been made, distribution shall be made pursuant to Section 9.7(b).

8.6 Undistributed Accounts. At such time as the Employer may determine in writing, the account of a Participant who has had a Termination of Employment shall be invested in assets of the Trust other than Employer Securities as of the Anniversary Date following the Participant's Termination of Employment. Such investments may include bank savings accounts, certificates of deposits, common stocks, preferred stocks, bonds, notes, debentures, mutual funds, and other property, real or personal, provided such investments do not violate applicable law, and subject to the availability of cash in the Plan to permit such investments.

8.7 S Corporation Distributions. With respect to an Employer that is an S Corporation, distributions on shares of Employer Securities shall be applied and allocated as follows:

(a) To the extent permitted by applicable law or as otherwise provided in subsection (b), S Corporation distributions from the Employer on Employer Securities (whether held in the suspense account under Section 6.2 or allocated to Participant accounts) may, in the Employer's discretion, be:

(i) used to provide for the diversification of Employer Securities in accordance with Sections 6.6 or 8.6 or;

(ii) used to provide for distributions in accordance with Section 8.4.

(b) S Corporation distributions on Employer Securities acquired with the proceeds of an Exempt Loan may, in the Employer's discretion, be used to pay current obligations on an Exempt Loan or allocated as provided in Section 8.4(a) above.

(c) To the extent distributions on Employer Securities that are held in the suspense account under Section 6.2 used to pay an Exempt Loan, such amounts shall be allocated in accordance with Sections 6.2 and to the extent such distributions are not used to pay down the Exempt Loan, shall be allocated to each Participant's Employer Contribution accounts in the same proportions as Employer Contributions are or would be allocated for the Plan Year among eligible Participants in accordance with Section 5.4.

(d) To the extent distributions on Employer Securities that are allocated to Participants' Employer Contribution accounts are used to repay an Exempt Loan as provided in Section 8.4(b), shares released from the suspense account under Section 6.2 shall be allocated to Participants' Employer Contribution accounts as follows:

(i) first, shares of Employer Securities with a Value equal to the distributions with respect to the shares of Employer Securities allocated to Participants' Employer Contribution accounts shall be allocated among and credited to the Employer Contribution accounts of such Participants, pro rata, according to the number of shares of Employer Securities held in such accounts on the distribution date;

(ii) then any remaining shares of Employer Securities released from the suspense account shall be allocated among and credited to the Employer Contribution accounts of eligible Participants in accordance with Section 5.4.

8.8 C Corporation Dividends. With respect to Employer Securities of an Employer that is a C corporation, dividends paid with respect to such Employer Securities held by the Plan in the suspense account under Section 6.2 may, in the Employer's discretion, be used to repay an Exempt Loan. Such C corporation dividends, and dividends paid with respect to Employer Securities allocated to Participant accounts may, in the Employer's discretion, be:

(a) allocated to and retained in Participant accounts;

(b) distributed to Participants in cash directly by the Employer;

(c) paid to the Plan and distributed therefrom to Participants no later than 90 days after the close of the Plan Year in which paid;

(d) at the election of the Participant or Beneficiary:

(i) paid as provided in (a) or (b) above, or

(ii) paid to the Plan and reinvested in Employer Securities; or

(e) used to repay an Exempt Loan.

The distribution or allocation of C corporation dividends with respect to Employer Securities held in the suspense account shall be made to Participants or their accounts in the same proportions as Employer Contributions are or would be allocated for the Plan Year among eligible Participants in accordance with Section 5.4. However, dividends held by the Plan for a 2-year period or longer shall be distributed in accordance with Section 8.4; dividends held by the Plan for a lesser period may be distributed in cash. When C corporation dividends of Employer Securities allocated to Participants' Employer Contribution accounts are used to repay an Exempt Loan, shares released from the suspense account shall be allocated to Participants' Employer Contribution accounts as follows:

(x) first, shares of Employer Securities with a fair market value at least equal to such dividends paid with respect to the shares of Employer Securities allocated to the Participants' Employer Contribution accounts shall be allocated among and credited to the Employer Contribution accounts of such Participants, pro rata, according to the number of shares of Employer Securities held in such accounts on such dividend declaration date;

(y) then any remaining shares of Employer Securities released from the suspense account shall be allocated among and credited to the Employer Contribution accounts of eligible Participants in accordance with Section 5.4.

8.9 Unclaimed Accounts. In the event the Employer is unable with reasonable effort to locate a Participant or Beneficiary entitled to a distribution under the Plan, the accounts distributable to such Participant or Beneficiary shall be forfeited and will be reallocated in the same manner as described in Section 7.4. A forfeiture under this paragraph shall occur no earlier than six (6) months after the Employer's efforts to locate such Participant or Beneficiary began or, if later, the earliest date applicable Treasury regulations would permit the forfeiture.

If a Participant or Beneficiary whose account has been forfeited pursuant to this Section 8.9 makes a claim, at any time, for the forfeited account, such forfeited account shall be restored, unadjusted for any gains or losses occurring subsequent to the date of the forfeiture. Such restoration shall be made during the Plan Year in which the Participant or Beneficiary makes the claim, first from the amount, if any, of forfeitures the Employer otherwise would allocate for the Plan Year, then from an additional amount the Employer contributes to make the required restoration.

8.10 Facility of Payment. In case of incompetency of a Participant or Beneficiary entitled to receive any distribution under the Plan, and if the Trustee shall be advised of the existence of such condition, the Trustee shall direct distribution to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having legal authority under state law for the care and control of such recipient. Any payment made in accordance with the foregoing provisions of this Section shall constitute a complete discharge of any liability or obligation of the Employer, the Trustee, and the Trust Fund.

ARTICLE 9

MINIMUM DISTRIBUTION REQUIREMENTS

9.1 Effective Date. The provisions of this Article 9 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

9.2 Precedence. The requirements of this Article 9 will take precedence over any inconsistent provisions of the Plan.

9.3 Requirements of Treasury Regulations Incorporated. All distributions required under this Article 9 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code and the minimum incidental benefit requirement of Section 401(a)(9)(G) of the Code.

9.4 Time and Manner of Distribution.

(a) **Required Beginning Date.** The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

(b) **Death of Participant Before Distributions Begin.** If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(1) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.

(2) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(3) If there is no Designated Beneficiary as of December 31 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(4) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this Section 9.4(b), other than Section 9.4(b)(1), will apply as if the surviving spouse were the Participant.

For purposes of this Section 9.4(b) and Section 9.7, unless Section 9.4(b)(4) applies, distributions are considered to begin on the Participant's Required Beginning Date. If Section 9.4(b)(4) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 9.4(b)(1). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under Section 9.4(b)(1), the date distributions are considered to begin is the date distributions actually commence.

9.5 <u>Forms of Distribution</u>. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first distribution calendar year distributions will be made in accordance with Sections 9.6 and 9.7. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations.

9.6 <u>Required Minimum Distributions During Participant's Lifetime</u>.

(a) **Amount of Required Minimum Distribution For Each Distribution Calendar Year.** During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(1) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9, Q&A-2, of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(2) if the Participant's sole Designated Beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9, Q&A-3, of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

(b) **Lifetime Required Minimum Distributions Continue Through Year of Participant's Death.** Required minimum distributions will be determined under this Section 9.6 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

9.7 Required Minimum Distributions After Participant's Death.

(a) **Death On or After Date Distributions Begin.**

(1) If the Participant dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's Designated Beneficiary, determined as follows:

(i) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(ii) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(iii) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, the Designated Beneficiary's remaining life expectancy is calculated using the age of the Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(2) If the Participant dies on or after the date distributions begin and there is no Designated Beneficiary as of December 31 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(b) **Death Before Date Distributions Begin.**

(1) If the Participant dies before the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's Designated Beneficiary, determined as provided in Section 9.7(a).

(2) If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of December 31 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(3) If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under Section 9.4(b)(1), this Section 9.7(b) will apply as if the surviving spouse were the Participant.

9.8 Definitions.

(a) **Designated Beneficiary.** The individual who is designated as the Beneficiary under Section 3.2 and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-4, of the Treasury regulations.

(b) **Distribution calendar year.** A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under Section 9.4(b). The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that distribution calendar year.

(c) **Life expectancy.** Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.

(d) **Participant's account balance.** The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

9.9 Election to Allow Participants or Beneficiaries to Elect 5-Year Rule. Participants or Beneficiaries may elect on an individual basis whether the 5-year rule or the life expectancy rule in Sections 9.4(b) and 9.7(b) applies to distributions after the death of a Participant who has a Designated Beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under Section 9.4(b), or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death. If neither the Participant nor Beneficiary makes an election under this Section, distributions will be made in accordance with Sections 9.4(b) and 9.7(b).

ARTICLE 10

TOP HEAVY PROVISIONS

10.1 Preemption. Notwithstanding any provision of the Plan to the contrary, the provisions of this Article shall govern in the event that the Plan is Top Heavy as of a Determination Date.

10.2 Minimum Contribution. Employer Contributions and forfeitures under this Plan (or any other defined contribution plan maintained by the Employer or an Affiliate) for any Plan Year during which the Plan is Top Heavy shall not be less than 3% of the Net Compensation of each Participant employed on the Anniversary Date who is a Non-Key Employee whether or not the Participant completed 1,000 or more Hours of Service during the Plan Year. Employer Contributions for purposes of this Section 10.2 shall also include matching contributions subject to Section 401(m) of the Code made under any other defined contribution plan maintained by the Employer or an Affiliate. However, if the largest percentage of Employer Contributions and forfeitures allocated to any Key Employee is less than 3% of the maximum amount permitted under Section 401(a)(17) of the Code of such Key Employee's Net Compensation for the Plan Year, then the minimum percentage of Net Compensation that shall be provided for any Non-Key Employee for a Plan Year is the largest percentage of the maximum amount permitted under Section 401(a)(17) of the Code of Net Compensation allocated on behalf of any Key Employee for that Plan Year. Any salary deferral under a qualified cash or deferred arrangement in a plan maintained by the Employer or an Affiliate shall be deemed to be Employer Contributions for purposes of determining the percentage of contributions for Key Employees under this Section. When the Employer or an Affiliate maintains more than one defined contribution plan, any required minimum contribution shall be made in the defined contribution plans in the following sequence:

(i) all employee stock ownership plans,

(ii) all profit sharing and stock bonus plans containing cash or deferred arrangements,

(iii) all money purchase pension plans other than money purchase pension plans that are part of employee stock ownership plans,

(iv) all profit sharing and stock bonus plans other than profit sharing and stock bonus plans containing cash or deferred arrangements and employee stock ownership plans.

If the Employer or an Affiliate maintains two (2) or more plans in the same category, any required minimum contribution shall be made to the plans in chronological order as determined by the effective date of each plan (using the original effective date of the plan) beginning with the most recently established plan. If a Participant is also covered by a defined benefit plan maintained by the Employer or an Affiliate, then for each Plan Year this Plan is Top Heavy the Participant shall receive an allocation of Employer contributions and forfeitures under the defined contribution plan described in the preceding sentence equal to 5% of Net Compensation, in lieu of both the foregoing minimum contributions and any minimum benefit requirements under the defined benefit plan.

10.3 Minimum Vesting. If the Plan is Top Heavy, a Participant shall have a vested and nonforfeitable interest in Employer Contributions allocated to the Participant's account, and income thereon, in accordance with the schedule that is provided in the Plan, but which is not less favorable to the Participant than the following:

Participant's Years of Service	Vested and Nonforfeitable Percentage
Less than 2 years	0%
2 years but less than 3 years	20%
3 years but less than 4 years	40%
4 years but less than 5 years	60%
5 years but less than 6 years	80%
6 or more years	100%

For purposes of this Section, Years of Service shall be determined in accordance with the general vesting provisions of the Plan.

ARTICLE 11

CLAIMS PROCEDURE

11.1 <u>Claims for Benefits</u>. A Participant or Beneficiary may make a claim for Plan benefits, if the Employer has not initiated such process, by filing a written request with the Employer on a form to be furnished for such purpose. The Participant or Beneficiary shall also furnish such additional information as may be reasonably necessary to establish a right to a benefit under the Plan. If a claim is incomplete, the Employer shall provide a notice to the Participant or Beneficiary as soon as administratively feasible, but in no event later than required by law or regulation.

11.2 <u>Denial of Benefits</u>. If a claim for benefits is wholly or partially denied, the Employer shall furnish to the claimant a notice of the decision, meeting the requirements stated below within 90 days after receipt of the claim by the Plan (45 days if the claim involves a determination of Disability). If special circumstances require more than 90 days to process the claim, this period may be extended for up to an additional 90 days (with an additional extension of 30 days if special circumstances exist) by giving written notice to the claimant before the end of the initial 90-day period, stating the special circumstances requiring the extension and the date by which a decision is expected. If the claim involves a determination of Disability and special circumstances require more than 45 days to process the claim, this period may be extended for up to an additional 30 days (with an additional extension of 30 days if special circumstances exist) by giving written notice to the claimant before the end of the initial 45-day period, stating the special circumstances requiring the extension and the date by which a decision is expected. In the case of any extension involving a claim of Disability, the notice of extension shall specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant will be given at least 45 days within which to provide the specified information. In all cases, failure to provide a notice of decision in the time specified shall constitute a denial of the claim, and the claimant shall be entitled to require a review of the denial under the review procedures specified below.

The notice to be provided to every claimant who is denied a claim for benefits shall be in writing and shall set forth in a manner calculated to be understood by the claimant, the following:

(a) the specified reason or reasons for the denial;

(b) specific reference to pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;

(d) an explanation of the Plan's claim review procedure describing the steps to be taken by a claimant who wishes to submit a claim for review;

(e) a statement describing the claimant's right to initiate a lawsuit under Section 502(a) of the Employee Retirement Income Security Act of 1974 if the appeal is unfavorable to the claimant; and

(f) for any denial of a claim involving Disability where the Employer relied upon an internal rule, guideline, protocol, or other similar criterion in making the adverse determination, the notice shall set forth the specific rule, guideline, protocol, or other similar criterion or a statement that such a rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination and a statement that a copy of such rule, guideline, protocol, or other criterion will be provided free of charge to the claimant upon request. If the adverse benefit determination is based on a medical judgment, the notice also shall set forth an explanation of the scientific or clinical judgment for the determination, applying the Plan's terms to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request.

11.3 **Review Procedure.** The purpose of the review procedure set forth herein is to provide a procedure by which a claimant may have a reasonable opportunity to appeal a denial of a claim to the Employer for a full and fair review. To accomplish that purpose, the claimant or duly authorized representative:

(a) may request a review upon written application to the Employer;

(b) may review pertinent Plan documents; and

(c) may submit issues and comments in writing.

A claimant (or duly authorized representative) shall request a review by filing a written application for review with the Employer at any time within 60 days after receipt by the claimant of written notice of the denial of the claim (180 days if the denial involves a claim based on Disability).

If the denial involved a claim based on Disability, the review of the Employer's initial adverse benefit determination shall not afford deference to such determination and shall be conducted by a fiduciary of the Plan who is neither the individual who made the initial adverse benefit determination nor a subordinate of that individual. In deciding an appeal of any initial adverse benefit determination that is based, in whole or in part, on a medical judgment, the fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The medical or vocational experts whose advice was obtained on behalf of the Employer in connection with its adverse benefit determination shall be identified to the claimant or the claimant's authorized representative, regardless of whether the Employer relied upon the advice in making the benefit determination. The health care professional whom the fiduciary consults in making his review of the Employer's initial adverse benefit determination shall be an individual who is neither an individual whom the Employer consulted in connection with the adverse benefit determination that is the subject of the appeal, nor the subordinate of any such individual.

11.4 Decision on Review. The decision on review of a denied claim shall be made in the following manner:

(a) The decision on review shall be made by the Employer, which may hold a hearing on the denied claim. The Employer shall make its decision promptly, which shall ordinarily be not later than 60 days (45 days if the denial involved a claim based on Disability) after the Employer's receipt of the request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time for processing. In that case, a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. If an extension of time is required due to special circumstances, written notice of the extension shall be furnished to the claimant prior to the time the extension commences.

(b) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, and specific references to the pertinent Plan provisions on which the decision is based.

(c) In the case of a decision on review upholding the Employer's initial denial of a claim based on Disability, the fiduciary's notice of its decision on review shall set forth the following information:

(i) If the adverse benefit determination is based on a medical judgment, the notice also shall set forth and explanation of the scientific or clinical judgment for the determination, applying the Plan's terms to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request; and

(ii) In addition, the notice shall include the following statement: "You and your Plan may have other voluntary alternatives dispute resolution of terms, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor office and your State insurance regulatory agency."

(d) In the event the decision on review is not furnished to the claimant within the time required, the claim shall be deemed denied on review.

ARTICLE 12

ADMINISTRATIVE COMMITTEE

12.1 Appointment. The Employer, in its capacity as named fiduciary of the Plan, may appoint a separate Administrative Committee of one or more members to perform the functions of the Employer under the Plan, in which event the following provisions will apply. Such a Committee may be designated as the administrator of the Plan. In the absence of such appointment, the Employer shall be the administrator of the Plan.

12.2 Resignation and Termination. A member of the Committee may resign at any time by notifying the Employer in writing. The Employer may terminate a member of the Committee at any time by notifying the member in writing.

12.3 Chairman and Agents. If there is more than one member, the Committee shall elect a chairman who shall be one of the members of the Committee. The Committee may authorize one or more of its members or any agent to execute or deliver any instrument on behalf of the Committee, including directions to the Trustee as to the disbursement of the Trust.

12.4 Meetings. The Committee shall hold such meetings upon such notice and at such place or places and at such time or times as it may from time to time determine. A majority of members then serving on the Committee shall constitute a quorum for the conduct of business and the affirmative vote of a majority of the members present at any meeting shall be necessary to approve action taken at the meeting. Action by the Committee may be taken without a formal meeting by the written authorization of all the members thereof.

12.5 Records. The Committee shall keep all records appropriate for the performance of its powers and duties under the Plan and may keep appropriate written records of its meetings.

12.6 Powers. The Committee shall have full power and authority to do each and every act and thing which it is specifically required or permitted to do under the provisions of the Plan and in addition thereto shall have the following discretionary powers and duties in connection with the administration of the Plan:

(a) to adopt from time to time such bylaws, procedures and forms as the Committee considers appropriate in the operation and administration of the Plan and Trust;

(b) to determine vested amounts in individual cases and to direct the Trustee as to the distribution of benefits and as to the payment of other amounts payable from the Trust in accordance with the provisions of the Plan;

(c) to establish rules and procedures needed for its administration of the Plan;

(d) to receive information and review copies of all records of Participant Contributions and Employer Contributions and Trust accountings;

(e) to pay all reasonable and necessary expenses of the Plan from the assets of the Trust to the extent that they are not paid by the Employer;

(f) to exercise general administration of the Plan except to the extent responsibilities are expressly conferred on others;

(g) to be the designated agent of the Plan for the service of legal process, or to designate the Employer or some other individual or committee to be the designated agent for the service of legal process;

(h) to establish a funding policy and communicate this policy to the Trustee;

(i) to approve or deny claims for Plan benefits made by Participants and Beneficiaries;

(j) to review appeals made by Participants or Beneficiaries (“claimants”) who have had their claims for benefits under the Plan denied in whole or in part;

(k) in determining whether claimants are entitled to benefits under this Plan or in accordance with paragraphs (i) and (j) above, the Committee shall rely first, on official Employer records; second, on questionnaires completed by Participants if such questionnaires are provided to Participants by the Committee; and third, on such other proof as appears appropriate to the Committee in a given case. However, in resolving disputes which arise as to facts which must be established in reaching said decisions, the Committee shall rely on the source or sources that it considers to provide the best evidence of the facts in question;

(l) to determine conclusively for all parties all questions arising in the interpretation or administration of the Plan;

(m) to employ a qualified investment manager to manage all or part of the Plan assets if that is deemed to be in the interests of the Plan's Participants and Beneficiaries by the Committee;

(n) to allocate fiduciary duties and responsibilities (other than Trustee responsibilities) among members of the Committee or other named fiduciaries appointed by the Committee to act in such capacity and to designate persons other than named fiduciaries to carry out fiduciary responsibilities (other than Trustee responsibilities) under the Plan to the extent that it is deemed advisable by the Committee. For purposes of this subparagraph, Trustee responsibility shall mean any responsibility provided in the Trust to manage or control the assets of the Plan, other than power of the Committee to appoint an investment manager in accordance with Section 402(c)(3) of the Employee Retirement Income Security Act of 1974. Before the Committee delegates any duties or responsibilities as provided herein, it must first obtain approval for such delegation from the Board of Directors of the Employer. The Committee shall periodically review the performance of any person to whom it has delegated such responsibilities. It is intended under this Plan and Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust, and shall not be responsible for any act or failure to act of another fiduciary.

12.7 Compensation. No member of the Committee shall receive any compensation from the Trust for services provided.

12.8 Indemnity. The Employer shall indemnify each member of the Committee against any and all claims, loss, damages, expenses (including counsel fees approved by the Committee), and liability (including any amounts paid in settlement with the Committee's approval) arising from any loss or damage or depreciation which may result in connection with the execution of the Committee's duties or the exercise of the Committee's discretion or from any other action or failure to act hereunder, except when the same is judicially determined to be due to gross negligence or willful misconduct of such member.

12.9 Powers Denied. No action of the Committee shall:

(a) alter the amount of contributions otherwise payable to the Plan;

(b) cause the Plan and Trust to fail to qualify under Sections 401(a) and 501(a) of the Code, or cause any portion of Employer Contributions to the Plan to fail to be deductible by the Employer under Section 404(a) of the Code;

(c) increase the duties or liabilities of the Trustee without its written consent; or

(d) cause the funds contributed to this Trust or the assets of this Trust to ever revert to or be used or enjoyed by the Employer, except as provided in this Plan.

12.10 **Action When There is a Vacancy.** If at any time there should be a vacancy on the Committee, then pending the appointment of a successor to fill such vacancy, the remaining members shall have the power to act on behalf of the Committee, provided, however, that whenever there are less than 3 members, the action must be taken by unanimous vote.

12.11 **Settlement of Claims.** The Committee shall have the power to accept, compromise, arbitrate, or otherwise settle any obligation, liability or claim, but it shall not be obligated to do so unless, in its sole judgment, it is in the interest of the Plan or Trust to do so.

12.12 **Discretionary Powers.** Whenever in this Plan and Trust discretionary powers are given to the Committee, it shall have absolute discretion, and its decision shall be binding upon all persons affected thereby. The Committee shall exercise its discretion in a nondiscriminatory manner.

12.13 **Employment of Professionals and Assistants.** The Committee shall have the power:

(a) to secure such legal, medical, and actuarial advice or assistance as it deems necessary or desirable in carrying out the provisions of the Plan;

(b) to appoint or employ such other advisors or assistants as it deems necessary or desirable to carry out its duties.

The Committee shall have full discretion to employ any person or firm that it deems qualified to supply any of the required services set forth above; provided, however, that the person or firm so employed shall be independent of the control of the Employer and, where required, shall have all necessary licenses to practice their profession.

12.14 **Bond.** To the extent not exempted by law or regulation, the Employer shall obtain a fidelity bond that shall cover every Employee who is a fiduciary of the Plan and every Employee who handles funds or other property of the Plan ("Plan official"). Each fiduciary and Plan official shall be bonded in an amount which is not less than the greater of 10% of the assets of the Plan or $1,000, provided, however, that bonding in excess of $1,000,000 (or $500,000 if the Plan holds no Employer Securities) shall not be required. Said bond will insure the Plan against loss by reason of acts of fraud or dishonesty on the part of every fiduciary and Plan official, directly or through connivance with others.

ARTICLE 13

TRUSTEE

13.1 Duty and Liability of Trustee. The Trustee shall discharge its duties with respect to this Plan solely in the interests of the Participants and Beneficiaries and for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying reasonable expenses of administering the Plan. The Trustee shall have generally all of the powers of owners with respect to securities or properties held in the Trust Fund, but shall not be liable for any losses incurred upon investments, except to the extent such Trustee failed to diversify the investments of the Plan so as to minimize the risk of large losses (unless under the circumstances it is clearly prudent not to do so), or failed to manage the investments of the Plan with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Except to the extent such duties may be expressly allocated to the Trustee, the Trustee in its capacity as such shall have no authority or responsibility with respect to the operation and administration of the Plan.

13.2 General Scope of Powers. The Trustee shall have all powers necessary for the performance of its duties. In extension, but not in limitation of the rights, powers and discretions conferred upon the Trustee by virtue of any statute or rule of law, or conferred upon the Trustee by other provisions of this Plan and Trust, the Trustee shall have and may exercise from time to time in the administration of the Trust herein created and for the purpose of distribution after the termination thereof and for the purpose of distributing any matured Beneficial Interest after the maturity thereof, and without order or license of any court, any one or more of the following rights, powers and discretions:

(a) **To Purchase Employer Securities.** To purchase Employer Securities with cash contributed to the Plan and to make other investments of funds in accordance with this Article.

(b) **To Pay Costs of Purchase.** To pay for brokerage commissions, taxes, and other charges and expenses incurred in connection with the purchase of Employer Securities and add such items to the cost thereof.

(c) **To Carry Securities in Nominee Form.** To purchase, hold and carry investments for the Trust Fund including Employer Securities in the name of the Trustee, or in the name of any nominee or nominees selected by the Trustee, without Trust designation in any said case, and to invest funds of the Trust in deposits, including savings accounts, savings certificates, and similar interest-bearing instruments or accounts in itself or its affiliates, provided that such deposits bear a reasonable rate of interest.

(d) **To Determine Beneficial Interests.** To compute and determine, in a fair and nondiscriminatory way, the interest of Participants and Beneficiaries in the Trust Fund in the event of a termination of the Trust, or in the event of the maturity of the Beneficial Interests or for any other purpose, and any such computation or determination made in good faith shall be binding and conclusive upon all parties to this Plan and Trust and upon all persons interested or who may become interested in the Trust Fund.

(e) **To Vote Employer Securities.** To exercise voting rights with respect to Employer Securities in accordance with the provisions of Section 6.4.

(f) **To Exercise Powers of Owners in Cases of Reorganization, Merger and the Like.** To institute, participate and join in any plan of reorganization or readjustment or merger or consolidation of any corporation, the securities of which are held by the Trust Fund, or to use any other means of protecting or dealing with any investments of the Trust Fund, and in general, to exercise each and every other power or right with respect to each investment of the Trust Fund as individuals generally have and enjoy with respect to their own investments and securities, including the power to give proxies, with or without power of substitution or revocation, and to deposit securities with any protective committee or with a trustee or with depositories designated by any such committee or by any such trustee or by any court.

(g) **To Segregate Funds for Proper Purposes.** To segregate any parts or portion of the Trust Fund for the purposes of administration thereof, or for purposes of distribution, or for any other purpose deemed proper by the Trustee; provided always that the Trustee may, except only to the extent that the foregoing power is exercisable by the Trustee, hold, manage, control, invest and reinvest the Trust Fund and the Beneficial Interests of the various Participants therein as a common fund, reflecting upon its records and books from time to time appropriate parts or portions of principal or income apportionable to the several Beneficial Interests.

(h) **To Sue and Defend and be Indemnified on that Account.** To institute or defend any proceedings at law or in equity concerning the Trust Fund or the assets thereof at the sole cost and expense of the Trust Fund, and of the several Beneficial Interests involved or concerned therein, and to compromise, settle and adjust any claims or liabilities asserted by or against the Trust Fund or the Trustee on such terms and for such sums or amounts as the Trustee in its absolute discretion, shall deem proper, but the Trustee shall be under no duty or obligation to institute, maintain, or defend any suit, action or other legal proceedings except and unless the Trustee shall have been indemnified to the Trustee’s satisfaction against all expenses and liabilities which the Trustee may sustain or anticipate by reason thereof. The Trustee shall not have the duty or obligation to sue or otherwise seek enforcement of Employer Contributions that are or may be due the Plan.

(i) **To Sell or Otherwise Dispose of Assets.** To sell, exchange, or otherwise dispose of any investment of the Trust Fund, or of the several Beneficial Interests, for such price and on such terms as the Trustee in the Trustee's absolute discretion shall elect, without regard to whether the time of payment provided in any said sale shall be greater than the probable or actual duration of the Trust herein created or not.

(j) **To Employ Agents, Servants and Attorneys.** To select and employ or retain such agents, servants, or attorneys as the Trustee from time to time may deem necessary or advisable in connection with the management and operation of the Trust herein created, and to pay the fees, commissions, or salaries incurred on account thereof as an expense of administration of the Trust.

(k) **To Value Assets and the Trust Fund.** To fix and determine, at the current fair market value thereof, the value of the Trust Fund annually and from time to time as may be necessary or advisable, in the Trustee's opinion, for any of the purposes of this Plan and Trust, including power to fix and determine, in a fair and nondiscriminatory way selected by the Trustee, the then fair market value of each and every item constituting the Trust, the items composing the same, including powers, upon maturity of a Beneficial Interest, to select and determine, in a fair and nondiscriminatory way, the assets of the Trust Fund to be set apart into and to constitute said matured Beneficial Interest and the value of the items so set apart for that purpose, and any such computation, determination, or action of the Trustee made in good faith shall be binding and conclusive upon all parties to this Plan and Trust and upon all persons interested or who may become interested, directly or indirectly, in the Trust hereby created.

(l) **To Determine Complex Questions of Income and Principal.** To determine, in accordance with sound business or accounting practices, with respect to any receipt of the Trust Fund or of the separate Beneficial Interests of Participants therein, and without regard to statutes or rules of law that otherwise would be controlling, the part or portion thereof which is income and the part or portion thereof which is principal, and to charge or credit to principal or income, as the Trustee may from time to time elect (without duty or obligation to exercise this power uniformly in all cases) any premiums paid or received or discounts received or allowed in connection with, or any gain or loss resulting from the purchase, sale, call, redemption or payment of any security or investment acquired, held, or disposed of by the Trust Fund.

(m) **To Require Settlement and Allowance of Accounts Before Making Distribution.** In making distribution of any Beneficial Interest, to demand and receive from the Participant or other person or persons entitled to receive the same, a complete settlement and accounting, before the Trustee shall be obligated to pay, distribute, or make available any part thereof to said Participant or to said person or persons.

(n) **Form and Method of Accounting.** To select and determine the appropriate forms, methods and books of account for use by the Trustee in the management and administration of the Trust herein created and for the purpose of accounting for the same.

(o) **Compensation and Payment of Fees and Expenses.** To receive reasonable compensation for the Trustee's services as Trustee hereunder, and to pay from out of the Trust Fund all costs, fees, expenses, taxes, and other charges and expenses of administration and distribution of the Trust Fund and of the separate Beneficial Interests to the extent that they are not paid directly by the Employer, and the Trustee shall further be entitled to reimbursement for or on account of any said item of disbursement from and out of the Trust Fund from time to time held by the Trustee, distributing the same ratably over the separate Beneficial Interests of Participants in accordance with the ratio of their separate Beneficial Interests to the sum total of all said Beneficial Interests; provided, however, the Committee may establish uniform rules allowing for the payment of certain costs, fees, expenses, taxes, and other charges on a per capita basis, provided such payments are consistent with Department of Labor Field Assistance Bulletin 2003-3.

(p) **Borrow and Advance Funds.** The Trustee is authorized in the Trustee's discretion to borrow money from others and to secure advances to the Trust Fund at any time and from time to time upon such terms and conditions as the Trustee deems best, and for the sum so borrowed or advanced, the Trustee may issue the Trustee's promissory note as the Trustee and secure the repayment thereof by the pledging of any securities or other property in the Trustee's possession as Trustee hereunder, and may pay interest thereon for any monies borrowed from others or advanced by it for the benefit of the Trust. Exempt Loans by the Trustee shall be made in accordance with Section 6.1.

(q) **Life Insurance.** The Trustee is authorized to purchase life insurance contracts on the lives of Participants as a general Trust Fund investment; provided, however, that proceeds from an Exempt Loan shall not be used by the Trustee to purchase life insurance. Such investments are intended to indemnify the Trust for the potential loss of Employer Contributions in the event of a Key Employee's premature death.

(r) **To Hold and Deposit Funds.** To hold uninvested such cash funds as may appear reasonably necessary to meet the anticipated cash requirements of the Plan from time to time, and to deposit such funds or any part thereof, either separately or together with other trust funds under the control of the Trustee, in its own deposit department or to deposit the same in the name of the Trustee in such other depositories as may be selected.

Each of the foregoing rights, powers and discretions conferred upon the Trustee and each and every power possessed by trustees generally by virtue of any statute or rule of law or other provisions of this Plan and Trust shall be discretionary powers exercisable by the Trustee, and the Trustee shall in no event be or become liable to anyone on account of the exercise of any said power in good faith.

13.3 Investment Powers. Except as otherwise provided in this Article, the Trustee shall have the exclusive authority and discretion to invest and reinvest the income of the Trust in real and personal property of any kind, including the commingled common funds of any corporate trustee, and "qualifying employer securities" and/or "qualifying employer real property," as defined in Section 407(d) of the Employee Retirement Income Security Act in amounts up to 100% of Trust assets. The Plan is designed to invest primarily in Employer Securities, and the Trustee shall not be limited by the laws of any state proscribing or limiting the investment of trust funds by trustees, either as to types of investments or as to diversification of investments.

The Employer may instruct the Trustee as to investments (including the acquisition, sale or retention of specific assets), disbursements or any other matter that comes within the powers granted to the Trustee under this Plan. When the Employer does instruct the Trustee, the Trustee shall have no responsibility or accountability for making any investment, for retaining any investment, for making any disbursement or for doing any other act directed by the Employer other than to comply with the instructions of the Employer. The Trustee may rely upon any instruction from the Employer given to it in writing and shall be under no duty to inquire as to the action taken.

13.4 Appointment of Investment Manager. The Employer may appoint one or more parties that are investment managers as defined in the Employee Retirement Income Security Act of 1974, as amended, to have power to manage, acquire, or dispose of all or part of the Trust Fund. The appointment of any such investment manager and investment of the Trust Fund pursuant to such appointment shall be subject to the following:

(a) Written notice of each such appointment shall be given to the Trustee a reasonable time in advance of the date that the investment manager first exercises the power granted to it. Such notice shall state what portion of the Trust Fund is to be invested by the manager and shall direct the Trustee to segregate such portion of the Trust Fund into a separate account for such investment manager.

(b) The Trustee shall not act on any direction or instruction of the investment manager until the Trustee has been furnished with an acknowledgment in writing by the investment manager that it is a fiduciary with respect to the Plan.

(c) There shall be a written agreement between the Employer and each investment manager. The Trustee shall receive a copy of each agreement and all amendments thereto and shall give written acknowledgment of receipt of same.

13.5 **More Than One Trustee.** Whenever there are 2 or more Trustees acting hereunder, a majority in number of the Trustees acting at any given time hereunder shall govern as to any and all business relating to this Trust, and a decision of the majority in number of the Trustees shall be binding and conclusive.

13.6 **Individual Trustees.** No individual Trustee shall have any right, as such Trustee, to make any decision or to take any action respecting the Trustee's rights of participation hereunder, and all matters respecting an individual Trustee's position as a Participant shall be decided by the remaining Trustee or Trustees, if any, or, if there is no other Trustee, by the Employer. However, no individual Trustee who is an Employee shall receive any compensation from the Trust for services provided as Trustee, except to reimburse the individual for expenses actually incurred.

13.7 **Annual Account.** The Trustee shall account annually for the Trust Fund and for its various transactions in connection therewith to the Employer.

13.8 **Person Dealing with Trustee.** No purchaser at any sale made by the Trustee hereunder, and no person, firm, or corporation dealing with the Trustee shall be obligated to see to the application of any money or property paid or delivered to the Trustee. All persons dealing with the Trustee may act in reliance upon the signature of the Trustee and shall not be bound to inquire as to whether or not said signature represents valid action by the Trustee.

13.9 **Prohibited Transactions.** Except as may be expressly permitted by law, no Trustee or other fiduciary hereunder shall permit the Plan to engage, directly or indirectly, in any of the following transactions with a Disqualified Person:

(a) sale or exchange, or leasing, of any property between the Plan and a Disqualified Person;

(b) lending of money or other extension of credit between the Plan and a Disqualified Person;

(c) furnishing of goods, services or facilities between the Plan and a Disqualified Person;

(d) transfer to, or use by or for the benefit of, a Disqualified Person of the income or assets of the Plan;

(e) act by a Disqualified Person who is a fiduciary whereby the fiduciary deals with the income or assets of the Plan in the fiduciary's own interest or for the fiduciary's own account; or

(f) receipt of any consideration for the fiduciary's own personal account by any Disqualified Person who is a fiduciary from any party dealing with the Plan in connection with a transaction involving the income or assets of the Plan.

13.10 **Indemnity.** The Employer shall indemnify, save and hold harmless, jointly and severally, the Trustee, other than a corporate Trustee, from any and all loss, damage and liability which the Trustee may incur or sustain, arising out of the performance of the Trustee's duties under the Plan, except to the extent that they result from the willful misconduct or gross negligence or lack of good faith of the Trustee. Except to the extent otherwise required under the Employee Retirement Income Security Act of 1974 or other applicable law, the Trustee shall not be liable for the acts or omissions of third parties.

13.11 **Resignation and Appointment.** The Trustee, or any successor Trustee, must accept its appointment in writing. The Trustee, or any successor Trustee, may resign as Trustee of this Trust at any time by giving 30 days' notice of resignation by registered mail to the Employer, or such shorter notice as may be agreed to by the Employer. Upon such resignation becoming effective, the resigning Trustee shall render to the Employer an account of the administration of the Trust during the period following that covered by the most recent account, and shall perform all acts necessary to transfer the assets of the Trust to the successor Trustee. In the event of the resignation of the original or any successor Trustee, the Employer shall have the power to appoint a successor Trustee. The Employer shall also have power at any time to appoint a Co-Trustee or Co-Trustees. No successor Trustee shall be or become liable for any action or default of a prior Trustee.

13.12 **Removal of Trustee.** The Employer may remove a Trustee or any successor Trustee at any given time upon 30 days' notice of removal by registered mail to the Trustee, or such shorter notice as may be agreed to by the Trustee. In case of such removal, the Trustee shall be under the same duty to account for and transfer assets of the Trust to a successor as hereinabove provided in the case of the resignation of a Trustee; and the Employer shall have the same power to appoint a successor Trustee.

13.13 **Continuation of the Trust.** Resignation, disqualification, liability or removal of a Trustee shall not terminate the Trust; and any successor Trustee, corporate or individual, shall have all powers, duties and discretions herein conferred upon the original Trustee.

ARTICLE 14

CLAIMS AGAINST THE TRUST FUND

14.1 **Anti-Alienation of Benefits.** Except as otherwise provided herein, no Participant or Beneficiary shall have any transmissible interest in the Trust Fund or in the Participant's separate Beneficial Interest therein, either before or after the vesting thereof, or in any of the assets comprising the same prior to actual payment and distribution thereof, and shall have no power to alienate, dispose of, pledge or encumber the same, while in the possession or control of the Trustee, nor shall the Trustee recognize any assignment thereof, either in whole or in part, nor shall the interest of any Participant or Beneficiary be subject to attachment, garnishment, execution or other legal process while in the hands of the Trustee.

14.2 **Charge for Litigation.** In the event that any Participant or any person claiming by or through a Participant should commence any equitable or legal proceedings against the Trustee, the result of which is adverse to the plaintiff, or in the event that the Trustee should find it necessary to commence any such proceeding against any Participant or any person claiming by or through a Participant, the result of which is adverse to the defendant, the cost to the Trustee of defending or bringing the proceeding, as the case may be, shall be charged, to the extent possible and permitted by law, to the account of the Participant and only the excess of such cost over the amount of the Participant's account shall be included as an expense of administration.

14.3 **Qualified Domestic Relations Orders.** Notwithstanding any provision to the contrary herein, the Employer may assign the interest of a Participant in the Plan (or in a successor plan of the Employer or in the plan of a successor Employer) to an Alternate Payee pursuant to a Qualified Domestic Relations Order. In the event the Plan receives a Qualified Domestic Relations Order with respect to a Participant's interest in the Trust Fund, the following provisions shall apply:

(a) The Employer shall promptly give written notification to the Participant and to the Alternate Payee of receipt of a domestic relations order and of Plan Qualification Procedures. The Employer shall then proceed with Qualification Procedures to determine whether the order is a Qualified Domestic Relations Order and shall notify the Participant and Alternate Payee (or the Alternate Payee's designated representative) of its determination.

(b) Disputed funds shall be disposed of as follows:

(i) During the period in which the Qualification Procedures are in progress, the Employer shall separately account for any amounts which would be payable to an Alternate Payee if the domestic relations order is determined to be a Qualified Domestic Relations Order.

(ii) If the order is determined to be a Qualified Domestic Relations Order within the 18-month period beginning on the date the first payment would be required to be made under the order, the Employer shall pay the amounts designated in the Order, together with earnings or losses, if required, to the Alternate Payee.

(iii) If the Employer determines that the order is not a Qualified Domestic Relations Order, or if the 18-month period described in paragraph (i) above elapses and the qualification dispute has not been resolved, the Employer shall pay such amounts, together with earnings or losses, if required, to the persons who would have received the amounts if the order had not been issued.

(iv) If an order is qualified after expiration of the 18-month period described in paragraph (i) above, payment of benefits to an Alternate Payee shall proceed prospectively and the Plan shall not be liable to an Alternate Payee for benefits attributable to the period prior to qualification.

(c) The Employer shall obey a Qualified Domestic Relations Order requiring that benefits be paid to an Alternate Payee beginning on a date on or after the Participant's Earliest Retirement Age, even though the Participant does not have a Termination of Employment on that date. If the Alternate Payee under a Qualified Domestic Relations Order cannot be located, the Employer may either maintain a separate accounting of the amount which would have been paid to such Alternate Payee, or reallocate such amount among the accounts of Participants as a reduction of the Employer contribution. If the Alternate Payee is thereafter located, the reallocated amount shall be reinstated for the benefit of the Alternate Payee.

(d) Payment of benefits pursuant to a Qualified Domestic Relations Order shall be made only as permitted under the Plan.

(e) To the extent permitted by law and except as otherwise provided under a Qualified Domestic Relations Order, the Employer may, on a uniform basis, charge the reasonable and necessary expenses associated with the review of a domestic relations order and the implementation of a Qualified Domestic Relations Order to the Plan.

(f) Effective April 6, 2007, a domestic relations order that otherwise satisfies the requirements for a Qualified Domestic Relations Order will not fail to be a Qualified Domestic Relations Order: (i) solely because the order is issued after, or revises, another domestic relations order or Qualified Domestic Relations Order; or (ii) solely because of the time at which the order is issued, including issuance after the Participant's death.

14.4 **Independent Fund.** In the event the Employer shall at any time go out of business, cease to exist, be dissolved, either voluntarily or involuntarily, or have a receiver or trustee in bankruptcy appointed for it, or be merged or consolidated into or with another company, no part of the Trust Fund created hereunder or of any of the separate Beneficial Interests of Participants shall in any manner whatsoever be or become subject to the rights or claims of any of its creditors, but the Trust herein created from its inception shall be a separate entity, aside and apart from the Employer and its assets, and the Employer shall have no claim or right to repossess any part of the funds or properties of the Trust or of the income derived therefrom.

14.5 **Payments Delayed Due To Disputes.** If the Employer determines there is a dispute concerning the payment of benefits to a Beneficiary or Beneficiaries, or concerning the qualification of a domestic relations order under Section 414(p) of the Code, the Employer may delay any payment that would otherwise be made under the Plan until the Employer, in its discretion, determines that the dispute has been resolved. The Employer may, in its discretion, file an interpleader action in federal court, naming the parties to the dispute, and may pay the disputed amount into the court to be distributed in accordance with the court's decision.

ARTICLE 15

MILITARY SERVICE AND LEAVE OF ABSENCE

15.1 **Compulsory Military Service.** Any Employee or Participant who, through the operation of a compulsory service law of the United States of America, enters the armed forces or government service of the United States shall be presumed for purposes of this Plan to be on leave of absence with the consent of the Employer, provided the individual returns to and reenters the employ of the Employer within such time after discharge or separation from military service as may entitle the individual to reemployment under law. Such leave of absence shall continue from the date of entry into such armed forces or government service until the date on which employment resumes with the Employer in accordance with the preceding sentence.

15.2 **Voluntary Military Service**. Any Employee or Participant who voluntarily enters the armed forces of the United States, or who is ordered to an initial period of active duty as a member of a reserve component of the armed forces of the United States or to full-time training or other full-time duty as a member of the National Guard shall be presumed for purposes of the Plan to be on leave of absence with the consent of the Employer, provided that: (1) military service does not exceed the maximum period which the individual could complete and remain entitled to reemployment with the Employer under law, and (2) the individual returns to and reenters the employ of the Employer within such time following discharge or separation from such military services as may entitle the individual to reemployment under law.

15.3 **Participation During Leave of Absence**. If a Participant is on leave of absence with the consent of the Employer, or is on leave of absence because of military or government service as described in this Article, the individual shall remain a Participant during the period of such leave of absence. However, during the period of such leave of absence, Employer Contributions shall only be made and amounts allocated on behalf of such Participant on account of Compensation actually paid to the Participant during such period except as required by law. If such Participant does not return to the employ of the Employer within the period granted for such leave of absence or, in the case of military or government service, within the periods provided in this Article, it shall be conclusively presumed for purposes of the Plan that employment terminated as of the date of expiration of such leave of absence or period provided in this Article, as the case may be. However, if the death or Disability of such Participant occurs prior to expiration of the applicable period, the death or Disability benefit provided in the Plan shall be payable. Notwithstanding any provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

ARTICLE 16

PARTICIPATING EMPLOYERS

16.1 **Adoption of Plan.** Upon approval by the Employer, a corporation or other entity may adopt this Plan by a properly executed document, participate herein and be known as a Participating Employer.

16.2 **Requirements of Participating Employers.** All Participating Employers shall be subject to the following rules:

(a) Each Participating Employer shall be required to use the Trustee designated herein. If the Employer delegates its duties to a Committee, each Participating Employer shall be required to use the Committee designated herein.

(b) The Trustee may, but shall not be required to, commingle, hold and invest as one Trust Fund all contributions made by Participating Employers.

(c) Expenses of the Trust Fund shall be allocated to each Participating Employer in the same proportion that the total amount credited to all Participants employed by such Employer bears to the total amount credited to all Participants.

(d) With respect to its relation with the Trustee, each Participating Employer shall be deemed to have designated irrevocably the Employer as its agent.

16.3 **Allocation of Contributions.** Employer Contributions shall be allocated in accordance with Section 5.4 among eligible Participants of all Employers that are Affiliates by applying a uniform allocation rate to all such Participants.

16.4 **Accounting for Employees.** If an Employee is employed by more than one Participating Employer during the Plan Year, service and Compensation with each Participating Employer that is an Affiliate shall be aggregated for all purposes under the Plan, and, for purposes of allocation of any contributions, the Employee shall be deemed to be employed on the Anniversary Date if the Employee is employed on such date by any Participating Employer. Such allocation shall be made in accordance with Article 5.

If an Employee is transferred between Participating Employers that are Affiliates, such Employee shall retain all amounts credited to the Employee's account, and the Employee's accumulated Years of Service and eligibility to participate in the Plan. No such transfer shall constitute a Termination of Employment, and the Participating Employer to which the Employee is transferred shall be obligated with respect to such Employee in the same manner as was the Participating Employer from which the Employee was transferred.

16.5 **Separate Records.** The Trustee shall keep separate records concerning each Participating Employer and the accounts of Participants employed by such Participating Employer. The transferee Employer shall immediately notify the Trustee if an Employee transfers from one Participating Employer to another.

16.6 **Amendment.** The Board of Directors of the Employer shall have the exclusive authority to amend this Plan without further action or consent of any Participating Employer and each Participating Employer to the extent required by law hereby delegates to the Board of Directors, including to its representatives and delegates, the power and authority to amend this Plan on behalf of the Participating Employer.

16.7 **Discontinuance of Participation.** Any Participating Employer may discontinue its participation in the Plan. At the time of any such discontinuance, evidence of satisfaction of any applicable conditions imposed under the Plan shall be delivered to the Trustee. The Trustee shall thereafter transfer Trust Fund assets allocable to the Participants of such Participating Employer to a successor Trustee designated by the Participating Employer, if it has established a separate qualified plan for its Employees. If no successor is designated, the Trustee shall retain such assets for the Employees of said Participating Employer pursuant to the provisions of the Plan. No portion of the Trust Fund attributable to such Participating Employer shall be used other than for the exclusive benefit of the Participants of such Participating Employer.

ARTICLE 17

RIGHTS OF EMPLOYER TO AMEND, DISCONTINUE OR TERMINATE

17.1 **Amendment.** Except as herein limited, the Employer shall have the right to amend this Plan and Trust at any time to any extent that it may deem advisable. Such amendment will be stated in an instrument in writing executed by the Employer and adopted by the Board of Directors or a representative of the Board as identified in the Board minutes. Upon delivery of such instrument to the Trustee, this Plan and Trust shall be deemed to have been amended in the manner therein set forth, and Participants shall be bound thereby; provided, however:

(a) that no amendment shall increase the duties or liabilities of the Trustee without its written consent;

(b) that no amendment shall have the effect of vesting in the Employer any interest in or control over any of the funds or properties subject to the terms of the Trust;

(c) that no amendment shall have the retroactive effect so as to reduce the percentage of any Participant's account which is vested and nonforfeitable; and

(d) that no amendment shall have the effect of eliminating or reducing an early retirement benefit or retirement-type subsidy or eliminating an optional form of benefit with respect to benefits accrued before such amendment.

17.2 **Termination of Plan.** It is the expectation of the Employer that it will continue this Plan and the payment of Employer Contributions hereunder indefinitely, but continuance of the Plan is not assumed as a contractual obligation of the Employer, and the right is reserved by the Employer at any time to discontinue its contributions hereunder, or, by action of the Board of Directors, to terminate the Plan. Mere failure of the Employer to make contributions hereto shall not terminate the Plan until notice of termination to the Trustee; however, upon such notice by the Employer to the Trustee, the Plan shall automatically terminate.

17.3 **Trust Term.** The term of the Trust herein created shall be for such time as may be necessary to accomplish the purposes set forth herein and in no event shall the term exceed the limits prescribed by the laws of the jurisdiction to which the Trust is subject. In the event such limit should be reached at any time, or for any reason, prior to the accomplishment of the purposes for which the Trust is created, the Trust shall be deemed to have terminated upon the attainment of such limit.

17.4 **Termination of Trust.** The Employer reserves the right to terminate the Trust at any time. Upon a determination that the termination of the Trust will not impair the Plan and Trust's qualification under the Code, the Trustee and Employer shall cause distribution of all of the assets of the Trust to be made to Participants as their respective interests may appear, provided, however, that the interests of Participants who have received distributions pursuant to Section 7.3 which resulted in a forfeiture of the nonvested portion of their Beneficial Interest prior to the date of termination of the Plan shall not have the nonvested portion restored to their accounts at the time of termination.

ARTICLE 18

SUCCESSOR EMPLOYER AND MERGER OR CONSOLIDATION OF PLANS

18.1 **Successor Employer.** In the event of a transfer of business assets, operations, or employees from the Employer to a successor employer, provision may be made by which the Plan and Trust will be continued by the successor; and, in that event, such successor shall be substituted for the Employer under the Plan. The substitution of the successor shall constitute an assumption of Plan liabilities by the successor and the successor shall have all of the powers, duties and responsibilities of the Employer under the Plan.

18.2 **Merger and Consolidation.** In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to another trust fund held under any other plan or deferred compensation plan maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) each Participant would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit the Participant would have been entitled to receive immediately before the merger, consolidation or transfer (if this Plan had then terminated);

(b) resolutions of the Board of Directors of the Employer under this Plan, and of any new or successor employer of the affected Participants, shall authorize such transfer of assets; and, in the case of the new or successor employer of the affected Participants, its resolutions shall include an assumption of liabilities with respect to such Participants' inclusion in the new employer's plan; and

(c) such other plan and trust are qualified under Sections 401(a) and 501(a) of the Code.

Notwithstanding the foregoing, a transfer of amounts from the Trust Fund to a nonqualified foreign trust shall be treated as a distribution from the Trust Fund.

ARTICLE 19

MISCELLANEOUS

19.1 **Inspection of Books.** The Trustee may inspect the books and records of the Employer whenever such inspection shall be reasonably necessary in order to determine any factor pertinent to the performance of its duties under this Plan and Trust. However, the Trustee shall not be required to make such inspection, but may in good faith rely on any statements of the Employer.

19.2 **Right to Terminate Employment.** The adoption and maintenance of the Plan and Trust shall not be deemed to be a contract between the Employer and any of its Employees. Nothing herein contained shall be deemed to give to any Employee the right to be retained in the employ of the Employer or to interfere with the right of the Employer to discharge any Employee at any time, nor shall it be deemed to give the Employer the right to require any Employee to remain in its employ, nor shall it interfere with the Employee's right to terminate employment at any time.

19.3 **Liability of Employer.** All benefits payable under the Plan shall be paid or provided for solely from the Trust.

19.4 **Defense Under Tax Laws.** The Employer shall have the right to defend the position of the Plan and Trust herein created as an employees' trust as defined in Section 401 of the Code.

19.5 **Governing Law.** This Plan and Trust shall be construed, administered, and governed in all respects under the laws of the State of Minnesota to the extent not preempted by federal law.

19.6 **Binding Effect.** This Plan and Trust shall be binding upon and inure to the benefit of the heirs, personal representatives, successors and assigns of any and all of the parties hereto.

19.7 **Qualification Under Tax Laws.** Except as otherwise provided herein, and subject to receipt of a favorable determination letter from the Internal Revenue Service, the Communications Systems, Inc. Employee Stock Ownership Plan and Trust, as restated, shall become effective as of the Effective Date.

19.8 **Earlier Effective Date to Maintain Tax Qualification.** Notwithstanding the Effective Date of this restatement, any provision in this restatement of the Plan that was included in order to comply with or reflect any change in the qualified plan rules of Section 401(a) of the Code, or in any other applicable law, as determined by the Employer, will be effective with respect to any person on the date the change in the applicable law becomes applicable to that person or to the Plan, unless a different effective date is specifically provided in the Plan document.

Notwithstanding anything herein to the contrary, the adoption of this restated Plan document shall not have the retroactive effect of reducing the percentage of any Participant's account which is vested and nonforfeitable, or eliminating or reducing an early retirement benefit or retirement-type subsidy with respect to benefits accrued before such adoption.

Except as set forth in this Section, the prior Plan document shall be effective in all respects for any Plan Years ending prior to January 1, 2009.

IN WITNESS WHEREOF, Communications Systems, Inc. has caused the Communications Systems, Inc. Employee Stock Ownership Plan and Trust, as restated, to be executed by its officer, and Curtis A. Sampson, Jeffrey K. Berg and Paul N. Hanson have executed this Plan and Trust and hereby affirm their continued appointments as Trustees, as of the Effective Date.

COMMUNICATIONS SYSTEMS, INC.

By /s/ Karen Nesburg Bleick

Its Vice President of Human Resources

Date: October 28, 2009

TRUSTEES

/s/Curtis A. Sampson
Curtis A. Sampson

/s/ Jeffrey K. Berg
Jeffrey K. Berg

/s/ Paul N. Hanson
Paul N. Hanson

FIRST AMENDMENT OF THE
COMMUNICATIONS SYSTEMS, INC.
EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

THIS AGREEMENT, amending the Communications Systems, Inc. Employee Stock Ownership Plan and Trust, is adopted by Communications Systems, Inc., a Minnesota corporation, (the “Employer”), and Curtis A. Sampson, William G. Schultz and David T. McGraw (collectively, the “Trustee”).

WITNESSETH: That

WHEREAS, The Employer has heretofore established and maintains a stock bonus and employee stock ownership plan (the “Plan”) that is currently embodied in a document dated January 1, 2009; and

WHEREAS, Pursuant to the authority reserved to the Employer under the Plan, the Employer desires to amend the Plan as set forth herein;

NOW, THEREFORE, The Plan is hereby amended as follows:

1. Effective January 1, 2009, Article 9 of the Plan is amended by adding a new Section 9.10 to read as follows:

9.10 **<u>2009 Required Minimum Distributions</u>.** Notwithstanding any other provision of this Article 9, a Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Section 401(a)(9)(H) of the Code (“2009 RMDs”), and who would have satisfied that requirement by receiving distributions that are (1) equal to the 2009 RMDs or (2) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the participant, the joint lives (or joint life expectancy) of the participant and the participant’s designated beneficiary, or for a period of at least 10 years (“Extended 2009 RMDs”), will not receive those distributions for 2009 unless the Participant or Beneficiary chooses to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to receive the distributions described in the preceding sentence. In addition, notwithstanding the definition of Eligible Rollover Distribution in Section 2.1, and solely for purposes of applying the Direct Rollover provisions of the Plan, 2009 RMDs and Extended 2009 RMDs will be treated as Eligible Rollover Distributions in 2009.

2. Effective January 1, 2009, Article 15 of the Plan is amended by adding a new Section 15.4 to read as follows, effective as provided therein:

15.4 **<u>HEART Act Provisions</u>**. In the case of a death occurring on or after January 1, 2007, if a Participant dies while performing qualified military service, the survivors of the Participant are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant had resumed and then terminated employment on account of death. Moreover, the Plan will credit the Participant’s qualified military service as service for vesting purposes, as though the Participant had resumed employment under the Uniformed Services Employment and Reemployment Rights Act immediately prior to the Participant’s death.

For remuneration paid after December 31, 2008, (i) an individual receiving a differential wage payment, as defined by Section 3401(h)(2) of the Code, is treated as an Employee of the Employer making the payment, (ii) the differential wage payment is treated as Compensation and Net Compensation, and (iii) the Plan is not treated as failing to meet the requirements of any provision described in Section 414(u)(1)(C) of the Code (or corresponding Plan provisions) by reason of any contribution or benefit which is based on the differential wage payment, but only if all Employees of the Employer performing service in the uniformed services described in Section 3401(h)(2)(A) of the Code are entitled to receive differential wage payments (as defined in Section 3401(h)(2) of the Code) on reasonably equivalent terms and, if eligible to participate in a retirement plan maintained by the Employer, to make contributions based on the payments on reasonably equivalent terms (taking into account Sections 410(b)(3), (4), and (5) of the Code).

3. Effective January 1, 2010, the first sentence of Section 18.1 of the Plan is amended to read as follows:

   In the event of a transfer of business assets, operations, or employees from the Employer to a successor employer, provision may be made by which the Plan and Trust will be continued by the successor; and, in that event, such successor shall be substituted for the Employer under the Plan.

4. Effective January 1, 2010, Section 18.2 of the Plan is amended by adding the following to the end of said Section:

   Notwithstanding the foregoing, a transfer of amounts from the Trust Fund to a nonqualified foreign trust shall be treated as a distribution from the Trust Fund.

5. Save and except as herein expressly amended, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, Communications Systems, Inc. has caused this Amendment to be executed by its officer, who has been duly authorized by its Board of Directors, and Curtis A. Sampson, William G. Schultz and David T. McGraw have executed this Amendment, effective as of the dates specified above.

COMMUNICATIONS SYSTEMS, INC.

By William G. Schultz

Its President and CEO

Date October 21, 2011

TRUSTEES

/s/Curtis A. Sampson
Curtis A. Sampson

/s/ William G. Schultz
William G. Schultz

/s/ David T. McGraw
David T. McGraw

Exhibit 21

SUBSIDIARIES OF COMMUNICATIONS SYSTEMS, INC.

Subsidiaries	Jurisdiction of Incorporation
Suttle Apparatus Corporation	Illinois
Suttle Costa Rica, S.A.	Costa Rica
Tel Products, Inc.	Minnesota
Suttle Caribe, Inc.	Minnesota
Austin Taylor Communications, Ltd.	United Kingdom
Automatic Tool & Connector Company, Inc.	New Jersey
JDL Technologies, Inc.	Minnesota
Transition Networks, Inc.	Minnesota
Transition Networks Shanghai.	China
LANart Corporation	Massachusetts
MiLAN Technology Corporation	California
Image Systems Corporation	Minnesota

All such subsidiaries are 100%-owned directly by Communications Systems, Inc. The financial statements of all these subsidiaries are included in the consolidated financial statements of Communications Systems, Inc.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-98325, 333-120561, 333-177890, and 333-161376 on Form S-8 of our reports dated March 15, 2012, relating to the financial statements and financial statement schedule of Communications Systems, Inc., and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, appearing in this annual report on Form 10-K of the Company for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

March 15, 2012
Minneapolis, Minnesota

Exhibit 31.1

Certifications

I, William G. Schultz certify that:

1. I have reviewed this annual report on Form 10-K of Communications Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

   d. (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2012

/s/ William G. Schultz

William G. Schultz
Chief Executive Officer

Exhibit 31.2

Certifications

I, David T. McGraw certify that:

1. I have reviewed this annual report on Form 10-K of Communications Systems, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

   d. (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2012

/s/ David T. McGraw

David T. McGraw
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, we the undersigned Chief Executive Officer and Chief Financial Officer, respectively of Communications Systems, Inc. (the "Company") hereby certify:

(1) That the accompanying Annual Report of the Company on Form 10-K for the period ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	/s/ William G. Schultz
Date: March 15, 2012	William G. Schultz President and Chief Executive Officer
	/s/ David T. McGraw
Date: March 15, 2012	David T. McGraw Vice President and Chief Financial Officer

Exhibit 99.1

PRESS RELEASE

FOR IMMEDIATE RELEASE

Contacts:	**William G. Schultz**	(952) 996-1573
	David T. McGraw	(952) 996-1691

Communications Systems, Inc. Reports Fourth Quarter and Full Year 2011 Results and Increase in Quarterly Dividend

Minnetonka, Minnesota - March 12, 2012 -- Communications Systems, Inc. (NASDAQ:**JCS**) today reported financial results for its full year and fourth quarter ended December 31, 2011.

For the twelve months ended December 31, 2011, net income was $9,798,000, or $1.15 per diluted share, on sales of $143,775,000. In fiscal 2010 the Company earned $9,715,000 or $1.15 per diluted share, on sales of $120,072,000. For the three months ended December 31, 2011, the Company incurred a loss of ($574,000) or ($0.07) per diluted share, on sales of $25,338,000, compared to 2010 fourth quarter net income of $1,970,000 or $0.23 per diluted share, on sales of $30,208,000.

CSI's 2011 full year revenues were the highest in the Company's history primarily due to a large network upgrade project delivered in the second and third quarters that generated revenues of approximately $33 million. Revenues from this unusually large order more than offset a significant drop in purchasing by the federal government and weakness in other sectors of the Company's data and telecommunications markets. While earnings for the full year were also a record, they were adversely affected by impairment charges affecting Suttle, as well as operating losses and other charges related to our Austin Taylor business unit.

Results in the 2011 fourth quarter reflect the impact of several factors, including the continuing significant drop off in purchasing by the federal government due to budget constraints, a sharp decline in revenues at our JDL unit following completion of a large project that began in 2010 and ended in the 2011 third quarter, and charges related to restructuring our Austin Taylor operations for integration into our Suttle segment.

William G. Schultz, President and CEO commented: "We are, of course, pleased with record results delivered to our shareholders for 2011 fueled by the large network upgrade project for a long-time customer. These results could only have been achieved through the perseverance of our sales organization and the dedication of our employees to deliver high-quality products to our customers. While our fourth quarter results are disappointing, they do not reflect weakness in our business model, but are primarily due to softness in certain sectors of our primary markets and the convergence of several one-time charges including charges related to restructuring Austin Taylor."

Mr. Schultz continued: “The restructuring we began in the third quarter of 2011 continued into January 2012. In January we implemented measures throughout the Company to better align the cost structure of our business to our market opportunities, including eliminating some general and administrative costs. The restructuring included an 8% reduction in our workforce. This enables us to better focus our resources on investments in product development and international expansion. Further, Austin Taylor, our UK operation, which has struggled with profitability in the last few years, has been significantly transformed and is now a part of our Suttle business unit, maintaining a number of strategic accounts and participating in Suttle’s initiatives to expand its global reach into Europe and the Middle East. We do not anticipate future losses from Austin Taylor’s operations.

“As we look ahead, we believe each of our three continuing business units is well positioned to meet the challenges of 2012. Our Suttle business has realigned its organization to improve margins and invest in additional engineering and sales resources. In 2011, we launched several new product initiatives for copper and fiber connectivity solutions, expanding Suttle’s reach in their existing customer base as well as adding new customers in Latin America, that we expect will contribute to our revenues in 2012. In addition, Suttle is introducing several innovative products to its customer base and these are planned to more than offset an anticipated decline in its legacy products.

“Our JDL business unit had a strong 2011, which included completing the installation of its record $18 million project for one of the largest school districts in the country. JDL is continuing to support this customer in new initiatives and, building on knowledge gained from its K-12 business, is actively marketing its IT capabilities to small to medium sized commercial businesses. Its focus is to enable customers to access their data anywhere, anytime with virtualization and cloud solutions and to also assist their IT departments by remotely monitoring and maintaining their network infrastructure. We believe JDL is well-positioned to capture part of the growth in these markets.

“Transition Networks’ performance in 2011 was exceptional, and it is bringing the energy from 2011 into the new year as it continues to invest in developing its capabilities to grow in the enterprise, service provider, and industrial markets. Our acquisition of Patapsco in 2011 was an important addition to Transition Networks’ capabilities to serve the mobile backhaul and government markets. While the nature of Transition Networks’ business often results in swings in revenue, we believe it is well positioned to continue growing over the long term.

“In addition, our long term performance will be significantly strengthened as we begin deploying in 2012 a new Enterprise Resource Planning (ERP) system, which is a major initiative that we began in 2011. Our new ERP system will standardize all CSI business units on a common platform. This will have a positive impact on all aspects of our business. It will bring efficiencies in the cycle from product concept to product development to bringing products to market; it will enable us to lower manufacturing costs and better manage our supply chain; and it will give us many tools to provide improved customer service. Implementing a new ERP system is a significant investment for the organization, but the dividends will be substantial in improved execution and enhanced service to our customers.

“In summary, CSI’s strategy for 2012 is focused on maximizing our existing capabilities and making smart investments – investments in new product development to better serve our customers, investments to enter new markets, particularly outside the US, and investments in technology that will make us more competitive. Although these investments will have a short term, negative impact on earnings, we expect they will set the stage for sustainable and profitable growth well beyond 2012.

“Our business strategy in 2012 will be supported by a very strong balance sheet. At December 31, 2011, the Company’s cash, cash equivalents and investments totaled $46,035,000 compared to $43,075,000 at the prior year end. In addition, we expect 2012 will be another year of solid cash flow.”

Mr. Schultz closed: “Due to the strength of our liquidity position and the Board’s confidence in the Company’s business plan and future prospects, it has authorized an increase in our regular quarterly dividend from $.15 per share to $.16 per share. The next dividend will be paid on April 1, 2012 to shareholders of record on March 22, 2012.”

Further Information

Further information regarding the Company’s results and related matters will be provided in the Company’s Form 10-K report for the year ended December 31, 2011, which will be filed on March 15, 2012.

Cautionary Statement

From time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, the Communications Systems Inc. may make forward-looking statements concerning possible or anticipated future financial performance, business activities or plans which are typically preceded by the words “believes,” “expects,” “anticipates,” “intends” or similar expressions. For these forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. Shareholders and the investing public should understand that these forward-looking statements are subject to risks and uncertainties, including those disclosed in our periodic filings with the SEC, which could cause actual performance, activities or plans after the date the statements are made to differ significantly from those indicated in the forward-looking statements when made.

About Communications Systems

Communications Systems, Inc. provides physical connectivity infrastructure and services for global deployments of broadband networks. Focusing on innovative, cost-effective solutions, CSI provides customers the ability to deliver, manage, and optimize their broadband network services and architecture. From the integration of fiber optics in any application and environment to efficient home voice and data deployments to optimization of data and application access, CSI provides the tools for maximum utilization of the network from the edge to the user. With partners and customers in over 50 countries, CSI has built a reputation as a reliable global innovator focusing on quality and customer service.

CSI CONSOLIDATED SUMMARY OF EARNINGS
Selected Income Statement Data
Unaudited

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010
Sales	$ 25,337,994	$ 30,207,682	143,775,051	$ 120,072,310
Gross margin	10,555,783	12,091,579	58,895,127	51,200,632
Operating income	(363,062)	2,997,910	17,514,920	15,614,384
Income before income taxes	(380,064)	2,999,436	17,619,990	15,634,537
Income taxes	194,213	1,029,652	7,822,124	5,919,104
Net income	$ (574,277)	$ 1,969,784	9,797,866	$ 9,715,433
Basic net income per share	$ (0.07)	$ 0.23	1.16	$ 1.16
Diluted net income per share	$ (0.07)	$ 0.23	1.15	$ 1.15
Cash dividends per share	$ 0.15	$ 0.15	0.60	$ 0.59
Average basic shares outstanding	8,465,823	8,407,094	8,448,612	8,384,242
Average dilutive shares outstanding	8,521,183	8,443,893	8,495,873	8,414,566

Selected Balance Sheet Data
Unaudited

	December 31, 2011	December 31, 2010
Total assets	$ 116,658,916	$ 109,070,227
Cash, cash equivalents and investments	46,034,821	43,074,730
Property, plant and equipment, net	14,019,019	13,214,067
Long-term liabilities	3,740,710	5,004,156
Stockholders’ equity	97,530,560	91,396,693