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, 2020

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	Trading Symbol	Name of each exchange on which registered
Common Stock, $.05 par value	JCS	NASDAQ
Preferred Stock Purchase Rights		

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 every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

See the definitions of " large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $36,646,000 based upon the closing sale price of the Company's common stock on the Nasdaq Capital Market on June 30, 2020.

As of March 1, 2021 there were outstanding 9,327,574 shares of the Registrant's common stock.

Documents Incorporated by Reference:	The information required by Part III of Form 10-K will either be (i) incorporated by reference from portions of the Company's definitive proxy statement for its 2021 Annual Meeting of Shareholders, or (ii) included in an amendment to this Form10-K on Form 10-K/A, in either case within 120 days of December 31, 2020.

PART I

ITEM 1. BUSINESS

OVERVIEW

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.) and the United Kingdom (U.K.). 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.

Recent Developments

<u>Proposed Merger with Pineapple Energy</u>

On March 1, 2021, Communications Systems, Inc. (“CSI”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Helios Merger Co., a Delaware corporation and a wholly-owned subsidiary of CSI (the “Merger Sub”), Pineapple Energy LLC, a Delaware limited liability company (“Pineapple”), Lake Street Solar LLC, a Delaware limited liability company (the “Members’ Representative”), and Randall D. Sampson, as the Shareholders’ Representative (the “Shareholders’ Representative,” and together with CSI, the Merger Sub, Pineapple and the Members’ Representative, the “Parties”), pursuant to which Merger Sub will merge with and into Pineapple with Pineapple surviving the merger as a wholly owned subsidiary of CSI (the “Merger”).

Under the terms of the Merger Agreement, CSI has agreed to issue to the members of Pineapple 15.6 million shares of CSI’s common stock (the “Common Stock”), subject to certain adjustments, as consideration for the Merger (the “Base Consideration”). The Base Consideration will be increased for any outstanding convertible notes issued by Pineapple in a pre-closing financing, which will convert into additional shares of CSI common stock at a rate of $2.00 per share. The Base Consideration will be decreased for any outstanding indebtedness of Pineapple at the closing of the Merger in excess of $22.5 million (the “Permitted Indebtedness”), which will reduce the base consideration at a rate of $2.00 per share.

In addition to the Base Consideration, certain members of Pineapple may receive additional shares pursuant to an earnout. Additional shares of common stock will be issued to such members of Pineapple upon the occurrence of the following milestones:

- If Pineapple discharges its Permitted Indebtedness of $22.5 million within three months of closing, then such members will be entitled to an additional 3.0 million shares of Common Stock.

- If, within two years of closing, the Common Stock achieves a 30-day VWAP (volume weighted average price) of at least $6.00 per share, such members will be entitled to receive up to 4.0 million shares of Common Stock (to be increased to 5.0 million if CSI consummates the “Dispositions,” (as defined below) of a majority of its assets by the 18-month anniversary of the closing).

- If, within two years of closing, the Common Stock achieves a 30-day VWAP of at least $8.00 per share, such members will be entitled to receive up to an additional 4.0 million shares of Common Stock (to be increased to 5.0 million if CSI consummates the “Dispositions” by the 18-month anniversary of the closing).

As provided in the Merger Agreement, CSI expects to declare a cash dividend that will be payable with respect to its outstanding shares as of a record date prior to the closing of the Merger (the "Pre-Closing Record Date") to the holders of its outstanding stock on such date (the "Legacy Shareholders"). In addition, as provided in the Merger Agreement, CSI is in the process of pursuing dispositions (the "Dispositions") of substantially all of its existing assets and businesses ("Legacy Assets"). To the extent these Dispositions occur prior to the closing of the Merger, CSI expects to declare a cash dividend that distributes a substantial portion of the proceeds from these Dispositions to the Legacy Shareholders. Following the closing, CSI will use commercially reasonable efforts to complete the Dispositions of the Company's Legacy Assets as soon as reasonably practicable (and, in any event, within 18 months of the closing). Proceeds that become available from the Dispositions that occur following the closing of the Merger will be distributed pro rata to the Legacy Shareholders pursuant to the Contingent Value Rights Agreement described below. CSI will continue to support these existing business lines as it pursues new owners for these businesses.

Prior to closing, CSI and Pineapple will cooperate in connection with a potential private equity transaction that would result in the issuance of additional shares of CSI Common Stock at or following closing of the Merger.

The Merger Agreement also contains indemnification provisions.

The obligations of each of Pineapple and CSI are subject to specified conditions, including, among other matters: (i) the approval by Pineapple members and CSI shareholders of the Merger; (ii) a registration statement becoming effective under the Securities Act of 1933, as amended, related to the Merger; and (iii) the filing of an amendment to CSI's Articles of Incorporation in order to increase the number of shares of Common Stock authorized for issuance to a number at least necessary to consummate the Merger.

The Merger Agreement contains customary representations and warranties from Pineapple and CSI. It also contains customary covenants, including (i) providing for each of the parties to use reasonable best efforts to cause the Merger to be consummated, and (ii) for Pineapple and CSI to carry on their respective businesses in the ordinary course of business consistent with past practice during the period between the execution of the Merger Agreement and the closing of the Merger. Both CSI and Pineapple also agreed not to solicit, seek or initiate or knowingly take any action to facilitate or encourage another transaction, subject to certain exceptions. CSI is required to seek shareholder approval of the issuance of the shares of Common Stock to be issued in the Merger pursuant to Nasdaq listing rules.

The Merger Agreement contains termination rights for each of Pineapple and CSI, including, without limitation, in the event that (i) any governmental entity issues a non-appealable final order permanently enjoining the Merger; (ii) the Merger is not consummated by August 31, 2021; or (iii) the other party breaches its representations, warranties or covenants under the Merger Agreement, which breach would give rise to the failure of a closing condition and such breach is not cured within 10-days of receipt of written notice of such breach.

The Merger Agreement provides that both CSI and Pineapple will be obligated to pay the other a termination fee of $2.5 million plus reimbursement of certain expenses, up to $750,000, if the Merger Agreement is terminated under certain circumstances.

The foregoing description of terms in the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement, which was filed as Exhibit 2.1 to a Current Report on Form 8-K dated March 1, 2020.

The Merger Agreement contains representations, warranties, covenants and other terms, provisions and conditions that the parties made to each other as of specific dates. The assertions embodied therein were made solely for purposes of the Merger Agreement and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating their respective terms. Moreover, they may be subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. For the foregoing reasons, no person should rely on such representations, warranties, covenants or other terms, provisions or conditions as statements of factual information at the time they were made or otherwise. Unless required by applicable law, CSI undertakes no obligation to update such information.

Simultaneously with the execution of the Merger Agreement, Pineapple entered into a Voting Agreement, dated March 1, 2021 (the "Voting Agreement") with officers and director of CSI (the "CSI Holders"). The CSI Holders hold in the aggregate approximately 13.8% of CSI's outstanding shares. Pursuant to the Voting Agreement, each CSI Holder has agreed, with respect to all of the voting securities of CSI that such CSI Holder beneficially owns as of the date thereof or thereafter, to vote in favor of the Merger. The Voting Agreement will terminate on the Effective Time (as defined therein) or upon termination of the Merger Agreement in accordance with its terms.

The foregoing description of the Voting Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Voting Agreement, which is filed as Exhibit 10.1 to the March 1, 2020 Current Report on Form 8-K.

Pursuant to the Merger Agreement, at the closing of the Merger, CSI will enter into a Contingent Value Rights Agreement (the "CVR Agreement") with a person designated by CSI as the Holders' Representative (as defined therein), and the Rights Agent (as defined therein). Pursuant to the CVR Agreement, each shareholder of CSI as of immediately prior to the closing of the Merger will receive one non-transferable Contingent Value Right ("CVR") for each outstanding share of common stock of CSI held as of the close of business on the day immediately before the Effective Time of the Merger, which will represent the right to receive pro-rata distributions of proceeds from Dispositions that occur following the Effective Time.

Sale of Suttle Business

Suttle, Inc. was a significant component of CSI's business since 1969. As a key element of the Company's strategic plan, however, the Company sold substantially all of Suttle's business, assets and operations pursuant to two separate transactions occurring in 2019 and 2020 that were previously reported. See Note 4 of the Notes to the Consolidated Financial Statements, "Discontinued Operations."

As a result of the Suttle sale, unless otherwise noted, all information in this Form 10-K about Suttle will be discussed and presented as discontinued operations and the Company will report its remaining business operations as continuing operations as described below.

After giving effect to the Suttle transactions and following the acquisition of Ecessa during the second quarter of 2020 and the merging of certain operations, CSI is principally engaged (i) through its Electronics & Software ("E&S") segment in the manufacture and sale of Ethernet switches, core media conversion products, and other connectivity and data transmission products, and (ii) through its Services & Support ("S&S") segment, in providing technology solutions including virtualization, managed services, wired and wireless network design and implementation, and hybrid cloud infrastructure and deployment.

Acquisition of Ecessa Corporation

On May 14, 2020, CSI acquired Ecessa Corporation in a reverse triangular merger for $4.6 million in cash. Ecessa designs and distributes software-defined wide area networking (SD-WAN) solutions for businesses through the deployment of field installations of Ecessa Edge®, PowerLink®, and WANworX® controllers and is part of the Company's Services & Support segment. See Note 5 of the Notes to the Consolidated Financial Statements, "Business Combinations."

Acquisition of IVDesk

On November 3, 2020, the Company acquired the operating assets of privately held IVDesk Minnesota, Inc. ("IVDesk") from a third-party receiver ("Receiver") appointed by Hennepin County, Minnesota State District Court Judge for aggregate consideration of $1.4 million, including a $550,000 earnout payment made in March 2021. IVDesk provides private cloud services to small- and mid-size businesses (SMB), with a particular focus on the financial services industry. IVDesk currently services over 85 customers across the U.S. with a focus on a tri-state region with Minnesota at the center. IVDesk's business model is built on monthly recurring revenue and is included within the Company's Services & Support Segment. See Note 5 of the Notes to the Consolidated Financial Statements, "Business Combinations."

Current Operations

The Company classifies its businesses into the following two segments:

- *Electronics & Software:* designs, develops and sells Intelligent Edge solutions that provide connectivity and power through Power over Ethernet ("PoE") products and actionable intelligence to end devices in an Internet of Things ("IoT") ecosystem through embedded and cloud-based management software. In addition, this segment continues to generate revenue from its traditional products consisting of, media converters, NICs, and Ethernet switches that offer the ability to affordably integrate the benefits of fiber optics into any data network; and

- *Services & Support:* provides SD-WAN and other technology solutions that address prevalent IT challenges, including network resiliency, security products and services, network virtualization, and cloud migrations, IT managed services, wired and wireless network design and implementation, and converged infrastructure configuration, deployment and management.

As noted within this Form 10-K, we have classified the operations of Suttle as discontinued operations for 2020 and 2019Non-allocated general and administrative expenses are separately accounted for as "Other" in the Company's segment reporting. Additionally, any indirect general and administrative costs previously allocated to Suttle are also included in "Other." Intersegment revenues are eliminated upon consolidation. Further information regarding these 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 14 of the Notes to Consolidated Financial Statements under Item 8.

Information Regarding Business Segments

(i) Electronics & Software

This segment is comprised of CSI's Transition Networks, Inc. ("Transition Networks" or "Transition") and Net2Edge Limited ("Net2Edge") businesses.Transition Networks is based in Minnetonka, Minnesota, and Net2Edge is based in Basingstoke, Hampshire, United Kingdom. Electronics & Software develops, markets and sells PoE switches, media converters, network interface cards (NICs), Ethernet switches, Small Form Factor Pluggable modules (SFP), and other connectivity products under the Transition Networks brand name. Transition sells its products through distributors, resellers, integrators, and original equipment manufacturers ("OEMs"). These media converters, network interface devices (NIDs), and Ethernet Switch products allow network operators to transmit voice and data across networks as well as provide connectivity and power in security and surveillance, smart building, smart city and intelligent transportation applications. Sales by E&S were $34,496,000 in 2020 compared to $47,007,000 in 2019. International sales accounted for 14% of E&S's sales, or $4,775,000 in 2020, compared to $7,236,000, or 15% of E&S's sales in 2019.

Products

Electronics & Software develops, markets and sellssolutions that provide actionable intelligence, power and connectivity at the edge of networks through PoE switches, software and services as well as traditional products such as media converters, network adapters and other connectivity products, edge network access products, TDM (time-division multiplexing) over IP and other circuit emulation solutions, along with specialized cloud-based software solutions. Our PoE switches, media converter devices, Ethernet switches and other connectivity products enable customers to transmit voice and data across networks as well as provide connectivity and power to end devices in the IoT ecosystem. Our growing PoE products support remote devices such as cameras and wireless access points by passing electrical power along with data on Ethernet cabling, eliminating the need for traditional AC/DC electrical power in hard-to-reach locations. Our media converters and other customer premise equipment (CPE) assist customers in resolving challenges in the areas of bandwidth constraints, security risks, and distance limitations as networks extend from local area to wide area networks and adapt to ever increasing end-user demands. As more cities move to implement smart city technology, a major component will be solutions designed to protect and provide services to citizens, such as intelligent transportation and surveillance networks. Electronics & Software switches deliver the necessary connectivity, bandwidth and power to enable these solutions. Many of our products incorporate features to perform advanced levels of fault management and diagnostics to troubleshoot networks and proactively fix problems.

Electronics & Software develops product hardware and software internally and expenses the related costs as they are incurred. In connection with the sale of its hardware products, Electronics & Software provides its customers with a variety of software management options including Network Management System (NMS) software for providing superior provisioning and monitoring of its Ethernet switches and other managed devices. Transition has been developing and marketing Ethernet-based networking products for over 30 years. Electronics & Software continues to develop products that address the enterprise, service provider, industrial, government, and security markets. Increasingly, Electronics & Software PoE switches are used in smart building environments, intelligent transportation applications, and in security and surveillance networks.

Manufacturing and Sources of Supply

Electronics & Software uses contract manufacturers to manufacture its products in different geographical locations, in addition to OEM partners through which the Company sources product and markets under its own name. In 2020, 91% of the total value of Electronics & Software's products were manufactured in or sourced from Trade Agreement Acts (TAA) compliant countries (i.e. Taiwan, U.S., U.K.) and the remaining 9% was manufactured in or sourced from other geographies. Offshore sources of supply are subject to certain risks, including political risk.

Markets and Marketing

Electronics & Software's products are used in a broad array of markets including federal government, enterprise, service provider, industrial, security, and surveillance markets. Electronics & Software has a broad customer base that uses its products in a variety of applications.

The line of Ethernet switches (both PoE and non-PoE) is used in last-mile access, backhaul, wiring closets and at end-user stations. These are sold into security networks, intelligent transportation applications, smart buildings, corporate enterprise networks, and other IoT applications domestically and abroad. The media conversion product line is used in several applications. The ION chassis-based modular systems are used primarily in telecommunications closets for high-density applications or when multiple protocols need to be supported. Stand-alone media converters are used typically at customer premises or for lower density applications. The Carrier Ethernet NID line of products addresses the high-quality access requirements for both business services and wireless backhaul data communications and telecommunications applications.

Marketing primarily consists of direct marketing using a sales force, tradeshows, trade magazine advertising, on-line advertising, website, email, social media, and public relations activities. Electronics & Software also provides and participates in advertising and cooperative marketing campaigns with distribution partners.

Research and Development

Electronics & Software develops products for the federal government, enterprise, service provider, security, and industrial markets. This includes developing commercial and hardened PoE switches, converters for emerging protocols and existing protocols in new markets, as well as new industry standards. Some of these products include devices built on the IEEE 802.3ah, 802.3ag, ITU-T Y.1731 standards, Metro Ethernet Forum (MEF)® standards, and PoE devices based on the IEEE 802.3af, 802.3at, 802.3bt standards. Some design efforts are paced by the development of critical components such as integrated circuits and optical transceivers.

Research and development consists primarily of designing, prototyping, and testing of equipment and supplies associated with developing new products and enhancing existing products. Research and development costs are expensed when incurred and were $2,808,000 in 2020 compared to $3,600,000 in 2019.

Electronics & Software conducts its research and development operations in the United States, at its Minnetonka, Minnesota headquarters location and out of its Net2Edge Basingstoke location. While these locations have primary engineering and product development responsibility, E&S occasionally uses third-party design services and Original Design Manufacturers ("ODM") to support specific product design requirements.

Competition

E&S faces strong competition across its entire product line. A large number of competitors exist for high-volume products in Ethernet switches and media converters. Low-cost competitors from China and Taiwan are strongest in (i) Asian, (ii) European, Middle Eastern, and African ("EMEA") and (iii) South American markets. E&S also faces new competitors as it enters new markets for smart cities, smart buildings, intelligent transportation systems, and higher performance devices for the service provider market.

Order Book

Outstanding customer orders for Electronics & Software products were approximately $1,559,000 at March 1, 2021 and $2,813,000 at March 1, 2020. Electronics & Software 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.

(ii) Services & Support

This segment is comprised of CSI's JDL Technologies, Inc. ("JDL Technologies" or "JDL") and Ecessa Corporation ("Ecessa") businesses. JDL is based in Fort Lauderdale, Florida, and Ecessa is based in Minnetonka, Minnesota. Services & Support ("S&S") provides technology solutions that address prevalent IT challenges, including network resiliency, security products and services, network virtualization, and cloud migrations, IT managed services, wired and wireless network design and implementation, and converged infrastructure configuration, deployment and management. Services & Support's 2020 sales were $8,777,000 compared to 2019 sales of $4,741,000. Project and product revenue totaled $5,120,000 in 2020 or 58% of segment sales compared to $2,242,000 in 2019 or 47% of this segment's sales. Services revenues increased to $3,657,000 in 2020 from $2,499,000 in 2019.

Markets and Marketing

Services & Support differentiates itself from its competitors by continuously adopting and adapting to changes in available IT services, ensuring it continues to provide new and innovative solutions to its clients and prospective clients. This ensures this business segment remains well qualified to help clients with their use of technology and IT resources to meet business objectives and regulatory requirements.

Services & Support partners with clients to provide complete support for their information technology environments, from servers to software applications, from the network-level down to the desktop level. Under a typical managed services agreement, S&S provides virtual CIO services to client management, deploys, manages, secures, and supports client's IT systems and services, provides helpdesk support to the client's user community, and adds value to the client's business by enabling the client to focus on its core competencies. Services & Support's key avenues for delivering on this commitment—and its competitive advantages—include on-premise managed services operations center and secure, state-of-the-art hosted datacenter and partnerships with industry leading solution providers. The managed services operations center leverages the best available tools, applications, practices, and resources to deliver a consistent, quality customer experience. Services & Support holds the MSP Trustmark credential from CompTIA and is a member of the MSP Alliance.

Services & Support's portfolio of technology solutions reflects the regular introduction of new technologies and delivery methodologies and the increasing demand among businesses for innovative solutions to strengthen their competitive edge and address prevailing IT challenges. With its team of professionally certified engineers, more than 250 years of technical experience, and talented leadership, S&S develops IT solutions that effectively meet these demands. To sustain its leading-edge position, S&S also maintains robust partnerships with strategic manufacturers and is a 3CX VoIP Gold Partner, HP Enterprise Gold Partner, Microsoft Silver Partner, eMDs Solution Provider, and Citrix Solutions Service Provider.

Customers

In 2020, Services & Support Technologies aggressively targeted its primary vertical markets, healthcare, education and commercial business.

Healthcare:
Services & Support continues to serve as a trusted partner to its healthcare clients, offering SD-WAN devices and an array of services that address HIPAA Security Rule and Privacy Rule compliance requirements, including its flagship cloud-based service, HIPAA FastTrack. Services & Support's managed services practice supports clients ranging from single-office providers, to multi-location regional specialists, to their regulated suppliers and business associates.

Commercial:
Services & Support Technologies provides support and service to a diverse commercial client set. In 2019, Services & Support continued to place emphasis on an expanded set of security solutions layered on top of its Cloud-Based IT Managed Services. This enabled Services & Support to provide an even more secure total solution that included security awareness testing and training of client end users which has become increasingly important as threats to an organization's security are focused more and more on end users as the weakest link.

Education:
During 2020, Services & Support continued to support a multi-year project to provide wireless network services and datacenter upgrades for several hundred public K-12 schools in Florida. Most of the Company's work on this project was completed in 2020. The education vertical remains an important element of Services & Support's overall market strategy. Much of the Company's historical revenue from the education sector has been derived from a school district in Florida. The Company has substantially completed its work on this project and was not selected as the primary vendor on the next multi-year project for this school district but was selected as the secondary vendor for structured cabling and enterprise networking.

Products and Services

As a managed service provider and value-added reseller, Services & Support Technologies specializes in delivering technology solutions that free organizations to focus on the strategic business activities critical to their financial success. Services & Support's technology solutions encompass an extensive range of networking, virtualization, cloud, cybersecurity, and infrastructure services, most of which are available under JDL managed services contracts. A proprietary offering is the Ecessa SD-WAN device which provides Never Down ® networks. By deploying automatic failover and leveraging up to 25 communication links ranging from MPLS, lower cost broadband, cable, satellite, microwave or cellular 5G/4G/LTE, Ecessa's SD-WAN devices guarantee network and Internet uptime. As technology continues its move to the cloud, JDL aggressively markets its portfolio of cloud-based service offerings and SD-WAN devices to healthcare and commercial business. Its HIPAA FastTrack and Security FastTrack services, available in the JDL Cloud powered by Citrix, have won awards for product innovation, just as Services & Support Technologies has been recognized in the industry as a leading Managed Service Provider. Services & Support engineers are trained and certified in the newest cloud and other technology solutions.

Managed Services:
Services & Support Technologies continues to refine its Managed Services offering as the industry matures taking it from a traditional remote management model to a hosted service offering that grants Services & Support greater control, enables tighter service level agreements and increases margins while providing clients with a more service rich, cost effective, and secure environments for their IT systems. Services & Support serves a diverse base of clients with locations throughout the United States, offering managed service programs designed specifically for the healthcare and commercial markets. These robust programs meet HIPAA compliance standards and, while the majority of clients are supported remotely, independent of geographic borders, Services & Support is also able to provide on-site network management and help desk support for key enterprise clients in the South Florida, Atlanta, Georgia, and the Minneapolis/St. Paul, Minnesota markets. Services & Support's managed services include network management, availability assurance, event alerting and incident management services; server, workstation, mobile device, and other asset management services; security services including software patching, firewall, antivirus, anti-malware, and cybersecurity intrusion detection and prevention services; help desk support for client users; SIP-trunking, voice over IP and office management services; migration, conversion and vendor management; and technical consulting services and training.

Cloud Solutions:
With widespread adoption of cloud solutions on the rise, Services & Support continues to focus on these solutions as key offerings with significant revenue growth potential. Azure® cloud solutions, wireless as a service, infrastructure as a service, and Citrix® as a service (sold as Services & Support FastTrack) are among Services & Support's most successful cloud offerings, with others including backup, storage, voice over IP, firewall and email as cloud or hosted services. The benefits to clients are numerous and include vertical and horizontal scalability, internal bandwidth conservation, and simplification of IT management within client organizations, while Services & Support benefits from substantial economies of scale and standardization. All Services & Support cloud offerings are billable as monthly recurring revenue under its managed service model, and Services & Support is committed to bringing the benefits of cloud services to all clients.

Network Services:
Services & Support's roots are in network services, and these services remain central to its role as a managed service provider and value-added reseller. The Services & Support team has extensive experience and professional certifications in assessing, architecting, designing, and implementing wired and wireless networks as well as entire technology infrastructures. Networking services also include network infrastructure as a service, network design and deployment, network and endpoint security, SD-WAN and SASE offerings, edge security, network optimization, and device installation/configuration services.

Virtualization:
Whether hosted on premise, in Services & Support's private cloud, or on third-party platforms such as Azure or AWS (Amazon Web Services), using virtualization across an organization's IT environment delivers greater agility, mobility and efficiency. Services & Support's virtualization engineers assess, design, deploy, and manage virtualization programs that are designed to ensure user access to any workload, anytime, anywhere, on any device. Services & Support's virtualization services encompass network infrastructure, security, desktops, servers, applications, storage, and any combination thereof, including connectivity and software licensing. As Services & Support clients continue to adopt virtualization, they experience the economies of scale, reduced capital requirements, enhanced security, and disaster recovery protections that are inherent in virtualized environments.

Competition

The Company expects the Managed Services market will continue to grow significantly over the next several years, and as a result will attract many competitors, becoming a highly competitive industry. In response to these factors, Services & Support's focus is to quickly adapt to the changing needs of its clients through the adoption and productizing of new IT Service technologies as they become available. An example of this would be the addition of several security services to the Services & Support portfolio in 2019 including security tools to monitor the flow of sensitive data in and on the network, additional cloud-based services through Azure and AWS and enhanced end-point security services. By ensuring Services & Support continuously evaluates the services we offer with a focus on the changing market, we are able to provide a better range of services to our clients and prospects while increasing their reliance upon us as their IT service provider.

Order Book

Outstanding customer orders and contracts for Services & Support products and services were approximately $4,333,000 at March 1, 2021 and $1,546,000 at March 1, 2020. The Company does not consider current outstanding orders and contracts as a significant indicator of longer-term future results.

Human Capital

As of March 15, 2021, the Company employed 150 people. Of this number, 92 were within the Electronics & Software segment (including 74 in the U.S and 18 in the U.K.), 37 within the Services & Support segment, and 21 in corporate general and administrative positions. We consider our relations with our employees to be good. None of our employees are currently represented by a labor union.

The Company views its employees and culture as keys to its success. The Company aims to attract and retain qualified personnel and provides wages and benefits that are competitive locally to reward employees for performance. The Company values innovation, inclusion and diversity, safety and engagement as they attract, develop, and retain the best talent. We have adopted a diversity statement that is posted on our website at https://www.commsystems.com/corporate-governance/communications-systems-inc-diversity-inclusion-statement/.

The health and safety of our employees is a top priority of our leaders. In response to the COVID-19 pandemic, we instituted temporary office closures, implemented shelter-in-place orders and restrictions and instituted a mandatory work from home policy for substantially all office employees, and instituted social distancing work rules for operations personnel that continued to work in our facilities to satisfy customer orders. We believe the Company has generally been successful implementing proactive measures to protect the health and safety of its employees while maintaining business continuity and high levels of service to our customers.

Executive Officers of Registrant

The executive officers of the Company and their ages at March 1, 2021 are set forth below. See Item 9B of this Form 10-K for additional information on the Company's management.

Name	Age	Position[1]
Roger H.D. Lacey	70	Executive Chairman of the Company's Board[2]
Anita Kumar	53	Chief Executive Officer [3]
Mark D. Fandrich	59	Treasurer and Chief Financial Officer [4]
Scott Fluegge	51	VP of IT and Digital Transformation [5]
Michael Siegler, II	45	SVP of Service and Customer Experience [6]
Kristin A. Hlavka	39	Corporate Controller [7]

1 Additional footnotes indicate when officers began serving in their current capacity. Executive officers serve at the pleasure of the Board of Directors.

2 Mr. Lacey served as the Company's Chief Executive Officer from February 2015 until November 2020 and has served as the Executive Chairman of the Company's Board of Directors since December 2018. Additional information about Mr. Lacey's background will be contained in the 2021 Proxy Statement.

3 Ms. Kumar was appointed Chief Executive Officer in December 2020. From November 2019 to November 2020, she served as General Manager for Transition Networks, Inc. Prior to that, she was the Director of PLM & Software Engineering within Transition Networks, Inc. Additional information about Ms. Kumar's background will be contained in the 2021 Proxy Statement.

4 Mr. Fandrich was appointed Chief Financial Officer in August 2016. From July 2015 to August 2016, he served as Vice President of Finance of Suttle, Inc. From April 2004 to July 2015, he was Corporate Controller for The Bergquist Company, a global supplier of thermal interface material.

5 Mr. Fluegge was appointed Vice President of IT and Digital Transformation in January 2021. Previously he was Vice President and General Manager of JDL Technologies in December 2011, and was named President and General Manager in September 2013. Prior to this, he was the Vice President of Workload Automation at GSS AMERICA / GSS INFOTECH / INFOSPECTRUM CONSULTING.

6 Mr. Siegler was appointed Senior Vice President of Service and Customer Experience in December 2020. From May 2020 to November 2020, he was the General Manager of Ecessa. Prior to CSI's acquisition of Ecessa he was the Chief Executive Officer of Ecessa.

7 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.

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 14 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 announced merger with Pineapple Energy (“Pineapple”)

The Company’s planned merger with Pineapple Energy, announced on March 2, 2021, would changethe Company’s strategy from a focus on computer network infrastructure and managed services solutions to residential solar, and presents considerable challenges and risks including:

- The Company’s ability to obtain shareholder approval for the merger agreement and related transactions;
- The ability of Pineapple to successfully close its announced acquisitions and integrate these businesses into its operations;
- The ability of the combined company to successfully maintain a Nasdaq Capital Market listing;
- The ability of the combined company to successfully access the capital markets, identify and acquire appropriate acquisition targets and successfully integrate these companies into its operations, and operate profitably;
- The Company’s ability to successfully sell its existing operating business assets and its real estate assets and distribute these proceeds to its existing shareholder base;
- Conditions to the closing of the merger may not be satisfied or the merger may involve unexpected costs, liabilities or delays;
- The occurrence of any other risks to consummation of the merger, including the risk that the merger will not be consummated within the expected time period or any event, change or other circumstances that could give rise to the termination of the merger agreement;
- Risks that the merger disrupts current CSI plans and operations or that the business or stock price of CSI may suffer as a result of uncertainty surrounding the merger;
- The outcome of any legal proceedings related to the merger; and
- CSI or Pineapple Energy may be adversely affected by other economic, business, or competitive factors.

Risks Related to Our Traditional 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 services and the regular introduction of new products and services that meet evolving customer requirements.

Competition in the markets for enterprise networks and voice and data communications products is intense. Our ability to compete with other manufacturers and marketers of these products depends primarily on our engineering, OEM/ODM relationships, manufacturing, and marketing skills; the price, quality and reliability of our products; our delivery and service capabilities; and our control of operating expenses. Our JDL subsidiary experiences intense competition from other providers of IT products and services. 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. Some of our current competitors and potential competitors have greater financial, technological, manufacturing, marketing, and personnel resources than we possess. These current and future competitors may be able to identify new markets and develop new products that are superior to those we develop. They may also adapt new technologies faster, devote greater resources to research and development, promote products more aggressively, and price products more competitively. We cannot ensure that competition will not intensify or that we will be able to compete effectively in the markets in which we compete.

Our gross margins have fluctuated year to year, and we face many challenges in maintaining acceptable margins.

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

- Changes in customer, geographic, or product mix;
- Our ability to reduce product costs
- Royalties related to technology licensing
- Increases in material or labor costs
- Expediting costs incurred to meet customer delivery requirements
- Excess inventory and inventory carrying charges
- Tariffs on imported products
- Obsolescence charges
- Changes in shipment volume
- Changes in component pricing
- Changes in OEM/ODM pricing
- Increased price competition
- Changes in distribution channels
- Lower margins on competitive-bid contracts
- 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, resulting in the loss of some customers and reducing revenue during the pendency of business combinations and related integration activities.

We believe future consolidation may occur among our customers as they attempt 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 some instances, customers integrating large-scale acquisitions have reduced their purchases of our products as they integrate.

The business effect on 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 services 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.

In the event the Pineapple transaction does not close, we cannot guarantee the ability of the Special Committee of our Board of Directors to develop strategic options for the Company and the Company's ability to implement these strategies.

In May of 2018 the Company announced it had appointed a special committee of the board to perform a strategic review of the Company's businesses to explore opportunities for enhancing shareholder value and had engaged an investment banking firm to advise it in this process. The disposition of the Suttle operations, the Ecessa and IVDesk acquisitions, and the proposed Pineapple merger have been the primary outcomes of this initiative. In the event the Pineapple merger does not close, and the Company retains its traditional businesses, the failure to develop an alternative growth strategy, the failure to maintain positive operating income or invest in technology ventures that enhance value or that we can incorporate into our products, could result in operating losses and lack of shareholder confidence, which could negatively impact cash flow and the trading price of our common stock.

Our information technology systems may be exposed to various cybersecurity risks and other disruptions that could impair our ability to operate, adversely affect our business, and damage our brand and reputation. Risks are particularly acute in the cloud-based technologies that we and other third parties operate and that form a part of our solutions.

We rely extensively on our information technology systems or on third parties for services including our enterprise resource planning ("ERP") system, banking, payroll, shipping, and e-mail systems to conduct business. We also collect, store and transmit sensitive data, including proprietary business information and personally identifiable information of our customers, suppliers and employees.

Despite our investment in our information technology systems and data security program, the implementation of security measures to protect our data and infrastructure against breaches and other cyber threats, and our use of internal processes and controls designed to protect the security and availability of our systems, our information technology and communication systems may be vulnerable to cybersecurity risks such as computer viruses, hacking, malware, denial of service attacks, cyber terrorism, circumvention of security systems, malfeasance, breaches due to employee error, natural disasters, telecommunications failure, at our facilities or at third-party locations.

The General Data Protection Regulation, or GDPR, took effect on May 25, 2018, in the European Union and introduced direct compliance obligations for data controllers and data processors. National Data Protection Agencies, or NDPAs, are now able to impose fines for violations ranging from 2% to 4% of annual worldwide turnover, or 10 million to 20 million euro, whichever is greater. NDPAs have the power to carry out audits, request information, and obtain access to premises. Businesses must be able to demonstrate that the personal data of any data subject can be lawfully processed on one of the six specified grounds. The GDPR adopts a risk-based approach to compliance, under which businesses bear responsibility for assessing the degree of risk that their processing activities pose to data subjects. Businesses are required to perform data protection impact assessments before any processing that uses new technology and is likely to result in a high risk to data subjects. The GDPR requires businesses to maintain records of their processing activities. The GDPR establishes clear rules around data breach notifications and the processing of personal data in such a manner that the personal data can no longer be attributed to a specific individual have been set out by the GDPR. In addition, under the GDPR, data subjects have new rights, for example, the right to request that businesses delete their personal data (the right to be forgotten); to object to their personal data being processed; and to obtain a copy of their personal data within a set time frame.

Similar to the GDPR, the California Consumer Privacy Act of 2018 ("CCPA"), which became effective January 1, 2020, grants California residents with several new rights relating to their personal information. The CCPA applies to businesses that conduct business in California and satisfies one of three financial conditions, including a business that has a gross revenue greater than $25 million. The CCPA sets forth several data protection obligations for applicable businesses, including the obligation to inform a consumer, at or before collection, of the purpose and intended use of the collection, and the obligation to delete a consumer's personal information upon request. The CCPA establishes a private right of action that allows consumers the right to seek damages for serious data breaches. The CCPA also allows the California Attorney General to bring actions against non-compliant businesses with fines of $2,500 per violation or, if intentional, up to $7,500 per violation. Any failure by us to comply with the GDPR or the CCPA could have a material adverse effect on our business, results of operations or financial condition.

Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Any failure, or perceived failure, by us to comply with any regulatory requirements or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Any failure, breach or unauthorized access to our or third-party systems could result in the loss of confidential, sensitive or proprietary information, interruptions in our service or production or otherwise our ability to conduct business operations, and could result in potential reductions in revenue and profits, damage to our reputation or liability. There can be no assurance that our protective measures will prevent or timely detect security breaches that could have a significant impact on our business, reputation, operating results and financial condition.

In addition, our JDL Technologies subsidiary provides IT services for the Company internally and for third-party customers. As we continue to direct a portion of our JDL sales efforts toward Cloud solutions, we expect to store, convey and potentially process increasing amounts of data produced by customer devices. This data may include confidential or proprietary information, intellectual property or personally identifiable information of our customers or other third parties with whom they do business. It is important that we maintain solutions and related infrastructure that are perceived by our customers and other parties with whom we do business as providing a reasonable level of reliability and security. Despite any available security measures and other precautions that we deploy, the infrastructure and transmission methods we use directly or through third parties, may be vulnerable to interception, attack or other disruptive problems. Continued high-profile data breaches at other companies evidence an external environment that is becoming increasingly hostile to information security. Improper disclosure of data or perception that our data security is insufficient could harm our reputation, give rise to legal proceedings, and subject our company to liability under laws that protect data, any of which could result in increased costs and loss of revenue.

If a cyberattack or other security incident were to allow unauthorized access to or modification of our customers' data or our own data, whether due to a failure with our systems or related systems operated by third parties, we could suffer damage to our brand and reputation. The costs we would incur to address and fix these incidents would increase our expenses. These types of security incidents could also lead to lawsuits, regulatory investigations and increased legal liability, including in some cases contractual costs related to customer notification and fraud monitoring. Further, as regulatory focus on privacy and data security issues continues to increase and worldwide laws and regulations concerning the protection of information become more complex, the potential risks and costs of compliance to our business will intensify.

Our financial results could be adversely affected if one or more of our key customers substantially reduces orders for our products.

Traditionally, we have derived a large portion of our revenues from a relatively small number of customers, with our top ten customers accounting for 74% of net sales for both 2020 and 2019. In fiscal 2020, two E&S customers accounted for 19% and 17% of consolidated sales. In fiscal 2019, two E&S customers accounted for 21% and 16% of consolidated sales. The loss of or a substantial reduction in purchases by any one or more of our top customers could have a material adverse effect on our business, financial position and results of operations.

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

The enterprise network and communications equipment industry is characterized by rapid technological changes, evolving industry standards, changing market conditions, short product life cycles, 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. Our failure to modify our products to support 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 enterprise network and communications equipment markets accurately. New product development often requires forecasting of market trends, development and implementation of new technologies and processes and capital commitments. We do not know whether other new products we develop will gain market acceptance or result in profitable sales.

Some competitors have greater engineering and product development resources. 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. Specifically as we attempt to develop more software products and continue to expand our existing product set, we cannot ensure 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, including software-based 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.

Our business segments are dependent upon federal government spending.

Our E&S and S&S business segments are involved in projects that receive much of their funding from the United States federal government. To the extent that federal government spending is delayed or curtailed by government actions, our revenues and operating results may be adversely affected.

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 profitably 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 any required 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 and timing of customer orders and our ability to fulfill those orders in a timely manner
- the overall level of capital expenditures by our customers
- factors such as the coronavirus (COVID-19), which may affect our supply stream, our employee work force, our customers, or the general United States and world economy
- work stoppages and other developments affecting the operations of our customers
- our ability to obtain new customers and customer contracts
- the timing of our revenue recognition

- the timing of our new product and service introductions
- the availability of products and services we need from our suppliers
- market acceptance of new and enhanced versions of our products and services
- variations in the mix of products and services we sell
- the timing of federal and state government funding of projects
- 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 OEM/ODM 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 companies, our success depends 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 may 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 do not receive. 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, 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.

Our failure to achieve and maintain effective internal controls could limit our ability to detect and prevent fraud and thereby adversely affect our business and stock price.

We have incurred, and expect to continue to incur, significant continuing costs, including accounting fees and staffing costs, to maintain compliance with the internal control requirements of the Sarbanes-Oxley Act of 2002. Expansion of our business, particularly internationally, would require ongoing changes to our internal control systems, processes and information systems. In addition, if we complete future acquisitions, our ability to integrate operations of the acquired company could affect our continued compliance with the internal control requirements of the Sarbanes-Oxley Act.

We maintain internal controls to generate reliable financial reports. All internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to the consolidated financial system preparation and presentation. Our inability to maintain an effective control environment may cause investors to lose confidence in our reported financial information, which could in turn have a material adverse effect on our stock price.

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 adversely affected by current global economic conditions.

Over the past several years, financial markets globally have experienced periods of extreme disruption. These have included, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, ratings downgrades of some investments and declining valuations of others, tariffs on imports and exports. The frequency, severity and duration of these 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.

Our sales and operations may be adversely affected by the coronavirus (COVID-19) epidemic.

We experienced supply chain and demand disruptions during 2020 and expect the disruption to our supply to continue into 2021, as well as to incur higher logistics and operational costs due to the COVID-19 pandemic. We also saw delays in orders as some projects have been pushed out due to the inability to access locations due to the shutdowns. We may also see a slowdown in our business if one or more of our major customers or suppliers delays its purchase or supplies due to uncertainty in its business operations, encounters difficulties in its production due to employee safety or workforce concerns, is unable to obtain materials or labor from third parties that it needs to complete its projects, and may see a slowdown in our collection of receivables if our customers encounter cash flow difficulties or delay payments to preserve their cash resources. We are continuing to actively monitor the effects and potential impacts of the COVID-19 pandemic on all aspects of our business, liquidity and capital resources. The extent to which the COVID-19 pandemic may materially impact our financial condition, liquidity or results of operations is uncertain at this time.

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 and Minnesota law could prevent or delay a change in control of our company.

Provisions of our articles of incorporation and bylaws 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
- limitations on business combinations with interested shareholders 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.

The payment and amount of future dividends and number of shares we repurchase in the future under our Stock Repurchase Program is subject to Board of Director discretion and to various risks and uncertainties.

We currently do not pay a quarterly dividend. The payment and amount of future quarterly dividends is within the discretion of the Board of Directors and will depend on factors the Board deems relevant at the time declaration of a dividend is considered. These factors include, but are not limited to: available cash; management's expectations regarding future performance and free cash flow; alternative uses of cash to fund R&D expenditures and capital expenditures required to fund future growth; and, the effect of various risks and uncertainties described in this "Risk Factors" section. In addition, we adopted a Stock Repurchase Program in 2019. Our ability to continue this program or conduct future stock repurchase programs will depend on some of these same factors.

As discussed above, to the extent Dispositions of our current operating assets occur prior to the Pineapple merger, CSI expects to declare a cash dividend that distributes a portion of the proceeds from these Dispositions to its shareholders as of a Pre-Closing Record Date.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES

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

- The Company owns a 105,000 square foot building in Minnetonka, Minnesota where its executive and administrative offices are located. Transition Networks uses this facility for its warehouse, assembly, engineering and administrative operations. JDL Technologies and Ecessa use this facility for some administrative operations. The Company is currently marketing this building for sale.

- The Company owns three buildings in Hector, Minnesota totaling 109,000 square feet of manufacturing space situated on approximately 5 acres. Two of these buildings totaling 26,000 square feet of manufacturing space, are being leased to on a short-term basis as part of the March 2020 Suttle transaction. The Company is currently marketing these buildings for sale.

- JDL leases 3,700 square feet of office space in Fort Lauderdale, Florida.

- Net2Edge leases 5,500 square feet of office space in Basingstoke, Hampshire, U.K.

CSI believes these facilities will be adequate to accommodate its administrative, manufacturing and distribution needs for the foreseeable future and in the event the Minnetonka headquarters are sold, that it will be able to find alternative facilities adequate for its needs.

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 any 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

Market Information

The Company's common stock trades on the Nasdaq Capital Market under the trading symbol JCS.

Holders

At March 1, 2021, there were approximately 481 registered holders of record of Communications Systems, Inc. common stock.

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, 2020:

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:			
1990 Employee Stock Purchase Plan	5,647	$ 3.88	68,843
2011 Executive Incentive Compensation Plan	1,445,885	$ 6.03	623,083
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, but only grants equity awards under shareholder-approved plans.

Five-year Performance Graph

Not applicable because the Company is a smaller reporting company.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In the three months ended December 31, 2020, the company repurchased shares of stock as follows:

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	(a) Total Number of Shares Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(b) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 2020	—	$ —	—	$ 341,242
November 2020	—	—	—	341,242
December 2020	148	4.58	—	341,242
Total	148	$ 4.58	—	$ 341,242

(1) The total number of shares purchased includes shares purchased under the Board's authorization described above, including market purchases and privately negotiated purchases.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable because the Company is a smaller reporting company.

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

Key 2021 Developments

As discussed above under "Proposed Merger with Pineapple Energy," on March 1, 2021, the Company entered into an Agreement and Plan of Merger with Helios Merger Co. and Pineapple Energy LLC pursuant to which Pineapple would become a wholly owned subsidiary of the Company (the "Merger"). In connection with the Merger, CSI intends to pursue dispositions of its existing assets and businesses prior to the closing of the Merger. To the extent these dispositions occur, CSI expects to declare a cash dividend that distributes a portion of the proceeds from these dispositions to its shareholders as of a pre-closing record date.

Following the Merger closing, CSI will use commercially reasonable efforts to complete the dispositions of these assets as soon as reasonably practicable (and, in any event, within 18 months of the closing). Proceeds that become available from the dispositions that occur following the closing of the Merger will be distributed pro rata to the legacy shareholders pursuant to the contingent value rights agreement described above. CSI will continue to support these existing business lines as it pursues new owners for these businesses.

<u>Overview</u>

Communications Systems, Inc. provides connectivity infrastructure products and services for global deployments of broadband networks through the following business segments:

Electronics & Software

This segment is comprised of CSI's Transition Networks and Net2Edge businesses. With over 30 years of growth and expertise in hardware and software development in this segment, the Company offers customers network solutions that provide secure, reliable connectivity and power through PoE products and actionable intelligence to end devices in an IoT ecosystem through embedded and cloud-based management software. In addition, this segment continues to generate revenue from its traditional products consisting of, media converters, NICs, and Ethernet switches that offer the ability to affordably integrate the benefits of fiber optics into any data network, in any application, and in any environment. The product portfolio gives customers simple, secure, and intelligent solutions for the network edge by offering support for multiple interface speeds, PoE options, and a broad array of protocols.

As data networks continue to change and evolve, the Company' solutions enable customers to easily deploy, provision, and proactively manage their networks with actionable insights about their edge devices and connected end points, thereby minimizing the administrative burden of the operator. The Company distributes hardware-based connectivity solutions through a network of resellers in over 50 countries.

Services & Support

This segment is comprised of CSI's JDL Technologies and Ecessa Corporation businesses. With over 30 years of growth and expertise in managed services and SD-WAN solutions in this segment, the Company offers customers:

- Technology services and infrastructure in the commercial, healthcare, financial, and education market segments. The Company's portfolio of technology solutions includes IT managed services supporting client infrastructures from the data center to the desktop, security products and services, cloud migrations, network virtualization and resiliency, wired and wireless network design and implementation, and converged infrastructure configuration and deployment. We provide many of these technology services to the education space, including having provided services to one of the largest school districts in the US for more than 30 years. We also provide these services to a number of commercial and healthcare clients.

- SD-WAN Never Down® networks, sold as a product or as a recurring service, enable organizations of all sizes to reliably run Internet and cloud-based applications, connect offices worldwide and distribute traffic among a fabric of multiple, diverse ISP links, ensuring business continuity by removing bottlenecks and eliminating network downtime. These capabilities optimize Never Down performance of business-critical applications, aid in lowering IT costs, and make it easier to provision, maintain and support business networks and the applications that run over them.

Key 2020 Developments

- The Company's 2020 sales were $42.6 million, a 16% decrease from 2019 sales of $50.9 million.

- The Company's 2020 net loss from continuing operations was $1.8 million, or ($0.19) per diluted share, compared to net income from continuing operations of $251,000 or $0.03 per diluted share in fiscal 2019.

- At December 31, 2020, the Company had cash, cash equivalents and liquid investments of $21.5 million and working capital of $28.3 million compared to cash, cash equivalents and liquid investments of $24.1 million and working capital of $38.1 million at December 31, 2019.

- Electronics & Software sales decreased 27% to $34.5 million in 2020 from $47.0 million in 2019. E&S had decreased operating income of $1.0 million in 2020, compared to operating income of $4.0 million in 2019.

- Services & Support's sales increased 85% to $8.8 million in 2020 from $4.7 million in 2019. S&S had operating income of $310,000 in 2020 compared to an operating loss of $3,000 in 2019.

Impact of COVID-19 Pandemic

We are subject to risks and uncertainties as a result of the COVID-19 pandemic. In response to the pandemic,we instituted temporary office closures, implemented shelter-in-place orders and restrictions and instituted a mandatory work from home policy for substantially all office employees, and instituted social distancing work rules for operations personnel that continued to work in our facilities to satisfy customer orders. We experienced supply chain and demand disruptions during 2020 and expect the disruption to our supply to continue into 2021, as well as higher logistics and operational costs due to the COVID-19 pandemic. At the same time, we have seen an increase in demand for our fiber and high-speed products as customers are looking to upgrade their networks. As noted below, we also saw delays in orders as some projects are pushed out due to the inability to access locations due to the shutdowns. We may also see a slowdown in our business if one or more of our major customer or suppliers delays its purchase or supplies due to uncertainty in its business operations, encounters difficulties in its production due to employee safety or workforce concerns, is unable to obtain materials or labor from third parties that it needs to complete its projects, and may see a slowdown in our collection of receivables if our customers encounter cash flow difficulties or delay payments to preserve their cash resources. We are continuing to actively monitor the effects and potential impacts of the COVID-19 pandemic on all aspects of our business, liquidity and capital resources. The extent to which the COVID-19 pandemic may materially impact our financial condition, liquidity or results of operations is uncertain at this time.

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 these risk factors, please see Item 1A above.

Critical Accounting Policies

Inventory Valuation: We value inventories at the lower of cost or net realizable value. Reserves for excess 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 historical usage, 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. Goodwill is tested for impairment at the reporting unit level. A qualitative assessment can be performed to determine whether it is more likely than not the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, we compare the fair value of each reporting unit to its carrying value using a quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not impaired. If the fair value of the reporting unit is less than the carrying value, the difference is recorded as an impairment loss.

For the quantitative assessment, the Company estimates the fair value of each reporting unit based on a discounted cash flow analysis and a market-based valuation approach based on comparable public company trading values. 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 a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration that the Company expects to receive in exchange for these goods or services. In the Electronics & Software segment, revenue is recognized upon delivery of the Company's connectivity infrastructure and data transmission products. To determine when revenue should be recognized, it is important to determine when the transfer of control has occurred. The Company has determined that control transfers for these products upon shipment or delivery to the customer, in accordance with the agreed upon shipping terms. As such, the timing of revenue recognition occurs at a specific point in time.

The Company has determined that the following performance obligations identified in its Services & Support segment are transferred over time: managed services and professional services (time and materials ("T&M") and fixed price). This segment's managed services performance obligation is a bundled solution, a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer and are recognized evenly over the term of the contract. T&M professional services arrangements are measured over time with an input method based on hours expended towards satisfying this performance obligation. Fixed price professional service arrangements under a relatively longer-term service will also be measured over time with an input method based on hours expended.

The Company has also identified the following performance obligations within its Services & Support segment that are recognized at a point in time which include resale of third-party hardware and software, installation, arranging for another party to transfer services to the customer, and certain professional services. The resale of third-party hardware and software is recognized at a point in time, when the goods are shipped or delivered to the customer's location, in accordance with the shipping terms. Installation services are recognized at a point in time when the services are completed. The service the Company provides to arrange for another party to transfer services to the customer is satisfied at a point in time as the Company has transferred control upon the service first being made available to the customer by the third-party vendor, which are required to be presented on a net basis. Depending on the nature of the service, certain professional services transfer control at a point in time. The Company evaluates these circumstances on a case by case basis to determine if revenue should be recognized over time or at a point in time.

Results of Operations

2020 Compared to 2019

Consolidated sales were $42,576,000 in 2020, a 16% decrease from sales of $50,906,000 in 2019. Net loss from continuing operations in 2020 was $1,796,000, or ($0.19) per share compared to net income of $251,000 or $0.03 per share in 2019.

Electronics & Software Results

The Electronics & Software segment designs, develops and sells Intelligent Edge solutions that provide connectivity and power through PoE products and actionable intelligence to end devices in an IoT ecosystem through embedded and cloud-based management software. In addition, this segment continues to generate revenue from its traditional products consisting of media converters, NICs, and ethernet switches that offer the ability to affordably integrate the benefits of fiber optics into any data network. Characteristics of this business include a rapid pace of change in technologies and alternative solutions to our products. This segment derives the majority of its revenues from new installations and network upgrade projects, which tend not to recur frequently. The core markets for these products are enterprise, service providers, government, and industrial users. In 2020, 86% of Electronics & Software revenue came from North America, but we continue to see opportunity for long-term growth outside of North America and we continue to invest resources in sales, marketing, and infrastructure to grow that business.

Electronics & Software sales decreased 27% to $34,496,000 in 2020 compared to $47,007,000 in 2019. The Electronics & Software segment organizes its sales force by vertical markets and segments its customers geographically. Sales by region in 2020 and 2019 were:

	Electronics & Software Sales by Region	
	2020	2019
North America	$ 29,721,000	$ 39,771,000
International	4,775,000	7,236,000
	$ 34,496,000	$ 47,007,000

The following table summarizes the segment's 2020 and 2019 sales by product group:

	Electronics & Software Sales by Product Group	
	2020	2019
Intelligent edge solutions	$ 12,162,000	$ 18,442,000
Traditional products	22,334,000	28,565,000
	$ 34,496,000	$ 47,007,000

Sales in North America decreased 25% or $10,050,000 in 2020 compared to 2019 primarily due to delayed project spending by customers due to the effect of the COVID-19 pandemic, $7,050,000 of sales for a major metropolitan smart city intelligent transportation IoT project recorded in the prior year, that did not reoccur in the current year, and a decline in sales to major Canadian telecommunications customer, partially offset by strong sales to Federal agencies. International sales decreased $2,461,000, or 34%, primarily due to the economic effects of the COVID-19 pandemic and an overall drop in demand for traditional products.

Sales of intelligent edge solutions ("IES") products decreased 34% or $6,280,000 due to $7,050,000 of deliveries in the prior year for a major metropolitan smart city intelligent transportation IoT project that did not reoccur in the current year, partially offset by higher sales of security and surveillance products and sales to Federal agencies. Excluding the prior year major metropolitan smart city intelligent transportation IOT project, sales of IES products increased by $770,000 or 7%. Traditional product sales decreased 22% or $6,231,000, due mainly to the overall economic effects of the COVID-19 pandemic and a decline in media converter orders from major telecommunications customers.

Gross profit decreased 30% to $14,890,000 in 2020 compared to $21,394,000 in 2019. Gross margin as a percentage of sales decreased to 43% in 2020 from 46% in 2019 primarily due to the volume and favorable margin impacts from the prior year major metropolitan smart city IoT project that did not reoccur in the current year, and increased sales of some IES products to Federal agencies at lower margins, partially offset by lower inventory write-downs year over year.

Selling, general and administrative expenses decreased 20% to $13,875,000, or 40% of sales, in 2020 from $17,354,000, or 37% of sales in 2019 due to reduced travel, marketing and personnel expenses, in part due to steps taken by management in response to the COVID-19 pandemic.

Electronics & Software had operating income of $1,015,000 in 2020 compared to operating income of $4,040,000 in 2019, primarily due to lower sales and gross margin.

Services & Support Results

Services & Support sales increased 85% to $8,777,000 in 2020 compared to $4,741,000 in 2019.

Revenues by customer group were as follows:

	Services & Support Revenue by Customer Group	
	2020	2019
Education	$ 4,483,000	$ 1,926,000
Healthcare	887,000	705,000
Financial and other commercial clients	2,708,000	1,268,000
CSI IT operations	699,000	842,000
	$ 8,777,000	$ 4,741,000

Revenues by revenue type were as follows:

	Services & Support Revenue by Type	
	2020	2019
Project & product revenue	$ 5,120,000	$ 2,242,000
Services & support revenue	3,657,000	2,499,000
	$ 8,777,000	$ 4,741,000

Revenues from the education sector increased $2,557,000 or 133% in 2020 primarily due to the commencement of projects that had been previously delayed due to funding issues where the prior year had less project revenue in this sector. Projects for this education customer commenced at the end of the second quarter of 2020. Although the education vertical remains an important element of Services & Support's overall market strategy, much of the Company's historical revenue from the education sector has been derived from a school district in Florida. The Company has substantially completed its work on this project and was not selected as the primary vendor on the next multi-year project for this school district, but has been selected as the secondary vendor for structured cabling and enterprise networking.

Revenue from small to medium businesses ("SMBs"), which are primarily healthcare, financial and commercial clients, increased by 82% or $1,622,000 due tothe acquisition of Ecessa on May 14, 2020 and the acquisition of the assets of IVDesk on November 3, 2020. The decrease in the CSI IT operations revenue as compared to 2019 is related to hardware refresh revenue in the prior year that was not repeated in the current year. Project and product revenue increased $2,878,000 or 128% during 2020 as compared to 2019 due primarily to the increase in the education sector. Services and support revenue increased $1,158,000 or 46% as compared to the same quarter of the prior year due to the Company's acquisition of Ecessa, which has service and support revenue on its SD-WAN products. Overall, Ecessa contributed $1,260,000 and IVDesk contributed $401,000 in revenue during the year.

Gross profit increased 101% to $2,979,000 in 2020 compared to $1,482,000 in 2019. Gross margin as a percentage of sales increased to 34% in 2020 compared to 31% in 2019 due to the increase in project revenue in the education sector, primarily within the second half.

Selling, general and administrative expenses increased 80% in 2020 to $2,669,000, or 30% of sales, compared to $1,485,000 in 2019, or 31% of sales due to the May 2020 acquisition of Ecessa and the inclusion of its general and administrative costs that are not included in the prior year.

Operating income was $310,000 in 2020 compared to an operating loss of $3,000 in 2019, primarily due to increased education revenue.

Other

As a result of our treatment of Suttle as discontinued operations, “Other” includes non-allocated corporate overhead costs as well as costs allocated to Suttle that are not considered discontinued operations. In the past, the Company would estimate annual revenue and headcount for each principal business unit and then allocate a portion of shared service corporate overhead costs based on these metrics. Because Suttle is now treated as discontinued operations, these costs are now included within “Other.”

Income Taxes

The Company’s loss from continuing operations before income taxes was $1,775,000 in 2020 compared to income before income taxes of $235,000 in 2019. The Company’s effective income tax rate was -1.1% in 2020 compared to -6.5% in 2019. The 2020 effective rate differed from the standard rate of 21% primarily due to the valuation allowances related to deferred tax assets, along with the impact of state income taxes, foreign tax rate differences, foreign losses not deductible for U.S. income tax purposes, and provisions for interest charges for uncertain income tax positions. As of December 31, 2020, the Company had a federal net operating loss carryforward from 2015 through 2020 activity of approximately $10,940,000 that is available to offset future taxable income and begins to expire in 2035. The Company also has a federal capital loss carryforward from 2018 of approximately $1,930,000 that is available to offset future capital gains and expires in 2023. See Note 13 for a reconciliation of the standard tax rate to the Company’s effective tax rate for 2020 and 2019.

Acquisitions and Dispositions

The Company is a growth-focused supplier of IoT and edge management products and IT services, providing connectivity infrastructure and services for global deployments of broadband networks. The Company continually searches for acquisition candidates with products that would enable the Company to better serve its target markets.

Effects of Inflation

Inflation has not had a significant effect on operations in recent years. 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, 2020, the Company had approximately $21,457,000 in cash, cash equivalents and liquid investments, compared to $24,057,000 at December 31, 2019. Of this amount, $9,424,000 was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the 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. The Company also had $8,364,000 in investments consisting of commercial paper and corporate notes and bonds that are traded on the open market and are classified as available-for-sale at December 31, 2020.

The Company had working capital of $28,320,000, consisting of current assets of approximately $35,758,000 and current liabilities of $7,438,000 at December 31, 2020 compared to working capital of $38,052,000, consisting of current assets of $49,402,000 and current liabilities of $11,350,000 at the end of 2019.

Cash flow used in operating activities was approximately $4,684,000 in 2020 compared to $10,231,000 provided in 2019. Significant working capital changes from 2019 to 2020 included a $1.4M decrease in accounts payable and $1.5M used in discontinued operations.

Cash provided by investing activities was $3,930,000 in 2020 compared to $5,222,000 used in 2019.

Net cash used by financing activities was $800,000 in 2020 compared to $1,450,000 in 2019. Cash dividends paid on common stock decreased to $564,000 in 2020 ($0.06 per common share) from $743,000 in 2019 ($0.08 per common share). Proceeds from common stock issuances, principally shares sold to the Company's Employee Stock Ownership Plan and issued under the Company's Employee Stock Purchase Plan, totaled approximately $119,000 in 2020 and $715,000 in 2019. The Company acquired $71,000 and $2,000 in 2020 and 2019, respectively, of Company stock from employees to satisfy withholding tax obligations related to share-based compensation, pursuant to terms of Board and shareholder-approved compensation plans. The Company also acquired $284,000 of Company stock under a $2,000,000 Stock Repurchase Program authorized by the Board of Directors in August 2019. At December 31, 2020, there remained $341,000 under the 2019 Stock Repurchase Program.

Line of Credit

On August 28, 2020, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association, establishing a $5,000,000 line of credit facility that replaced a prior facility. On October 29, 2020, the Company entered into a First Amendment to the Credit Agreement. Under the Credit Agreement, as amended, the Company has the ability to obtain one or more letters of credit in an aggregate amount up to $2.0 million, subject to the general terms of the Credit Agreement.

The Company had no outstanding borrowings against this line of credit, or the prior facility, at December 31, 2020 and 2019, and $1,051,000 was available for use as of December 31, 2020. Interest on borrowings on the credit line is at LIBOR plus 1.25%, with a minimum LIBOR rate of 0.75% (2.0% at December 31, 2020). The credit agreement expires August 28, 2021 and is secured by government securities owned and pledged by the Company.

In connection with the Company's November 3, 2020 purchase of the operating assets of privately held IVDesk from a third-party Receiver, the Company provided the Receiver as seller a $550,000 letter of credit to secure the Company's obligation to pay the earn-out under the asset purchase agreement. The letter of credit was issued pursuant to the line of credit with Wells Fargo. In March 2021, the Company paid the $550,000 balance and the letter of credit was cancelled.

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.

Future Liquidity and Capital Resources and Needs: Financing Growth

As discussed above under "Proposed Merger with Pineapple Energy," on March 1, 2021, the Company entered into an Agreement and Plan of Merger with Helios Merger Co. and Pineapple Energy LLC pursuant to which Pineapple would become a wholly owned subsidiary of the Company (the "Merger"). In connection with the Merger, CSI intends to pursue dispositions of its existing assets and businesses prior to the closing of the Merger. To the extent these dispositions occur, CSI expects to declare a cash dividend that distributes a portion of the proceeds from these dispositions to its shareholders as of a pre-closing record date.

Following the Merger closing, CSI will use commercially reasonable efforts to complete the dispositions of these assets as soon as reasonably practicable (and, in any event, within 18 months of the closing). Proceeds that become available from the dispositions that occur following the closing of the Merger will be distributed pro rata to the legacy shareholders pursuant to the contingent value rights agreement described above. CSI will continue to support these existing business lines as it pursues new owners for these businesses.

In connection with the execution of the Merger agreement, the Company announced thatCSI and Pineapple Energy were exploring equity financing through a private placement that would close in connection with the closing of the Merger, with proceeds to be used by the combined company to finance additional acquisitions and working capital needs of the combined company.

A full description of the terms of the merger and related transactions will be provided in a proxy statement for the shareholders of CSI, as well as other documents filed with the Securities and Exchange Commission.

Contractual Obligation Summary

The following table summarizes our contractual obligations at December 31, 2020 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
Operating leases	$ 225,000	$ 199,000	$ 4,000	$ —
Total	$ 225,000	$ 199,000	$ 4,000	$ —

As of December 31, 2020, 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.

New Accounting Pronouncements

See Note 1 of the “Notes to the Consolidated Financial Statements” under Item 8 herein for a discussion of new accounting standards.

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. Although products sold by our Net2Edge subsidiary are generally denominated in British pounds, Net2Edge sales represented less than 5% of our consolidated net sales in 2020 and 2019. Therefore, fluctuations in foreign currency exchange rates have historically not been material to the Company.

At December 31, 2020, our bank line of credit carried a LIBOR rate plus 1.25%, with a minimum LIBOR rate of 0.75%. The Company’s investments are money market, certificates of deposit, commercial paper, and corporate notes and bonds 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 believes its risk of material loss due to fluctuations in foreign currency markets to be small, primarily resulting from its Net2Edge operations and sales.

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 and Finance 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/ Anita Kumar	/s/ Mark D. Fandrich
Anita Kumar	Mark D. Fandrich
Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Communications Systems, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Communications Systems, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income (loss) and comprehensive income (loss), changes in stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Intangible Assets Acquired in Business Combinations

Critical Audit Matter Description

As described in Note 5 to the consolidated financial statements, the Company completed the acquisitions of Ecessa Corporation and IVDesk Minnesota, Inc. during the year ended December 31, 2020. The aggregate consideration for the acquisitions was $6,010,000. Both acquisitions were accounted for as business combinations. The Company measured the assets acquired and liabilities assumed at fair value, which resulted in the recognition of intangible assets totaling $2,980,000, which consisted primarily of internally developed software of $1,800,000 and customer relationships of $1,010,000. The Company has also recorded goodwill of $2,086,000 as a result of these acquisitions.

The valuation of the intangible assets is complex and judgmental due to the use of subjective assumptions in the valuation models used by management when determining the estimated fair values of the assets. The determination of the fair values of the intangible assets requires management to make significant estimates and assumptions related to forecasts of future revenues, expenses, discount rates, risk-free rates, weighted-average cost of capital, equity risk premium, and royalty rates.

Auditing management's valuation of the acquired intangible assets is complex due to the judgments required to evaluate management's previously noted estimates and assumptions.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- Obtained an understanding of the design and implementation of internal controls relating to the evaluation of the assumptions used to estimate the fair value of the intangible assets acquired, including controls addressing:
  - Management's evaluation of the identification of the assets acquired.
  - Management's evaluation of the completeness, accuracy and reasonableness of the prospective financial information used to determine the fair values of assets acquired.
  - Management's evaluation of the completeness and accuracy of key assumptions and inputs used by a third-party valuation specialist, including discount rate, risk-free rate, weighted-average cost of capital, equity risk premium, and royalty rates used to determine fair values.
  - Management's evaluation of the clerical accuracy of the model used to determine the fair values of assets acquired.
- Substantively tested, with the assistance of firm personnel with experience in the application of fair value and valuation methodologies, the appropriateness of the judgments and assumptions used in management's estimation process for determining the fair value of the intangible assets acquired, including:
  - Tested the mathematical accuracy of the calculations performed along with assessing the completeness of the information used in the calculations.
  - Evaluated the appropriateness of the valuation methodologies used, as well as the key assumptions and inputs used, including discount rate, risk-free rate, weighted-average cost of capital, equity risk premium and royalty rates.
  - Performed sensitivity analyses to evaluate the changes in the fair value of the intangible assets that would result from changes in the assumptions.
  - Compared significant assumptions used by management to current industry and competitor data, historical results, third-party market data and evidence obtained in other areas of the audit.

Assessment of Impairment of Long-Lived Assets

Critical Audit Matter Description

As described in Note 1 to the consolidated financial statements, the Company reviews its long-lived assets periodically to determine whether indicators of potential impairment exist. Potential impairment is determined by comparing the carrying value of the assets with the expected future cash flows to be provided by operating activities of the business or related asset groups. 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. Management identified triggering events during the year ended December 31, 2020, that indicated that long-lived assets could potentially be impaired, and performed an impairment test as of December 31, 2020.

While the impairment test did not result in the recording of any impairment loss, the impairment test is complex and judgmental due to the use of subjective assumptions used by management when determining the asset groups to be evaluated for impairment, estimating expected future cash flows to be provided by operating activities of the identified asset groups, and estimating fair values of the assets or asset groups when applicable.

Auditing management's impairment analysis is complex due to the judgments required to evaluate management's forecasts of expected future cash flows and estimated fair values when applicable.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- Obtained an understanding of the design and implementation of internal controls relating to the evaluation of the assumptions used by management in conducting its impairment analysis, including controls addressing:
  - Management's evaluation of the asset groups evaluated for potential impairment.
  - Management's evaluation of the accuracy and reasonableness of the net cash flows expected to be provided by operating activities of the asset groups.

- Management’s evaluation of the completeness and accuracy of information used to determine fair values of assets or asset groups, including the methodologies used to determine fair values, when applicable.

- Substantively tested the appropriateness of the judgments and assumptions used by management in conducting its impairment analysis, including:
  - Confirmed the appropriateness of the asset groups evaluated in performing management’s impairment analysis.
  - Tested management’s assumptions used in estimating the net cash flows expected to be provided by operating activities of the asset groups, including the completeness and accuracy of the underlying data supporting the assumptions.
  - Utilized an internal valuation specialist to assist in testing the Company’s valuation model and significant assumptions related to the fair value of certain long-lived assets.
  - Evaluated audit evidence from events and transactions occurring after the measurement date.

Goodwill Impairment Evaluation

Critical Audit Matter Description

As described in Note 1 to the consolidated financial statements, the Company tests goodwill for impairment annually, or more frequently if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable. Due to the presence of the triggering events noted in the Assessment of Impairment of Long-Lived Assets critical audit matter, management performed an impairment test for goodwill as of December 31, 2020. The Company performed qualitative assessments to determine whether It was more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting units were less than their carrying amounts, including goodwill.

While the impairment test did not result in the recording of any impairment loss, the identification of triggering events indicates potential impairment of goodwill, which requires management to make significant judgments in performing its assessment including the evaluation of macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity-specific events, events affecting the reporting units, and trends in the Company’s share price.

Auditing management’s impairment analysis is complex due to the judgments required to evaluate management’s assessment of those factors identified above.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- Obtained an understanding of the design and implementation of internal controls relating to the evaluation of the assumptions used by management in conducting its impairment analysis, including controls addressing:
  - Management’s assessment of identified triggering events indicating potential impairment.
  - Management’s evaluation of the reporting units evaluated for potential impairment.
  - Management’s assessment of qualitative factors that may indicate potential impairment of goodwill.
- Substantively tested the appropriateness of the judgments and assumptions used by management in conducting its impairment analysis, including:
  - Confirmed the appropriateness of the reporting units evaluated in performing management’s impairment analysis.
  - Evaluated the factors management considered in its qualitative assessment to determine that goodwill was not impaired, including the evaluation of macroeconomic conditions, industry and market conditions, cost factors, the past financial performance of the reporting units, the projected financial performance of the reporting units, other entity-specific events, events affecting the reporting units, and trends in the Company’s share price.

/s/ Baker Tilly US, LLP
(formerly known as Baker Tilly Virchow Krause, LLP)
We have served as the Company’s auditor since 2017.
Minneapolis, Minnesota
March 31, 2021

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 31 2020	December 31 2019
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,092,484	$ 13,928,504
Restricted cash	—	679,006
Investments	2,759,024	9,449,650
Trade accounts receivable, less allowance for doubtful accounts of $121,000 and $154,000, respectively	10,177,445	10,242,405
Inventories	8,696,880	8,531,112
Prepaid income taxes	35,948	72,994
Other current assets	996,472	1,160,865
Current assets held for sale	—	5,337,274
TOTAL CURRENT ASSETS	35,758,253	49,401,810
PROPERTY, PLANT AND EQUIPMENT, net	7,242,072	8,238,089
OTHER ASSETS:		
Investments	7,109,212	250,000
Goodwill	2,086,393	—
Deferred income taxes	—	9,534
Right of use asset	413,415	367,909
Intangible assets	2,775,361	—
Other assets	171,619	—
Noncurrent assets held for sale	—	883,370
TOTAL OTHER ASSETS	12,556,000	1,510,813
TOTAL ASSETS	$ 55,556,325	$ 59,150,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,378,449	$ 3,720,445
Accrued compensation and benefits	2,298,075	3,517,331
Operating lease liability	213,553	115,935
Other accrued liabilities	1,524,515	2,602,752
Accrued consideration	550,000	—
Dividends payable	16,147	200,363
Deferred revenue	456,912	—
Current liabilities held for sale	—	1,193,218
TOTAL CURRENT LIABILITIES	7,437,651	11,350,044
LONG TERM LIABILITIES:		
Long-term compensation plans	116,460	164,348
Operating lease liability	197,308	244,038
Deferred revenue	310,179	—
TOTAL LONG-TERM LIABILITIES	623,947	408,386
COMMITMENTS AND CONTINGENCIES (Footnote 10)		
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; 9,321,927 and 9,252,749 shares issued and outstanding, respectively	466,096	462,637
Additional paid-in capital	43,572,114	42,977,914
Retained earnings	4,135,284	4,649,395
Accumulated other comprehensive loss	(678,767)	(697,664)
TOTAL STOCKHOLDERS' EQUITY	47,494,727	47,392,282
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 55,556,325	$ 59,150,712

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

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

	Year Ended December 31 2020	2019
Sales	$ 42,575,546	$ 50,906,179
Cost of sales	25,369,118	28,720,367
Gross profit	17,206,428	22,185,812
Operating expenses:		
Selling, general and administrative expenses	19,218,922	22,176,598
Acquisition costs	684,856	—
Total operating expenses	19,903,778	22,176,598
Operating (loss) income from continuing operations	(2,697,350)	9,214
Other income (expenses):		
Investment and other income	661,754	284,944
Gain (loss) on sale of assets	288,778	(20,368)
Interest and other expense	(28,514)	(38,440)
Other income, net	922,018	226,136
Operating (loss) income from continuing operations before income taxes	(1,775,332)	235,350
Income tax expense (benefit)	20,342	(15,269)
Net (loss) income from continuing operations	(1,795,674)	250,619
Net income from discontinued operations, net of tax	1,624,016	6,218,430
Net (loss) income	(171,658)	6,469,049
Other comprehensive income (loss), net of tax:		
Unrealized gains/(losses) on available-for-sale securities	9,249	(1,793)
Foreign currency translation adjustment	9,648	55,422
Total other comprehensive income	18,897	53,629
Comprehensive (loss) income	$ (152,761)	$ 6,522,678
Basic net (loss) income per share:		
Continuing operations	$ (0.19)	$ 0.03
Discontinued operations	0.17	0.67
	$ (0.02)	$ 0.70
Diluted net (loss) income per share:		
Continuing operations	$ (0.19)	$ 0.03
Discontinued operations	0.17	0.66
	$ (0.02)	$ 0.69
Weighted Average Basic Shares Outstanding	9,322,672	9,272,259
Weighted Average Dilutive Shares Outstanding	9,322,672	9,337,422

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 (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2018	9,158,438	$ 457,922	$ 42,680,499	$ (734,001)	$ (751,293)	$ 41,653,127
Net income	—	—	—	6,469,049	—	6,469,049
Issuance of common stock under Employee Stock Purchase Plan	34,469	1,723	93,437	—	—	95,160
Issuance of common stock to Employee Stock Ownership Plan	132,826	6,641	262,995	—	—	269,636
Issuance of common stock under Executive Stock Plan	156,525	7,826	612,424	—	—	620,250
Share based compensation	—	—	412,776	—	—	412,776
Other share retirements	(229,509)	(11,475)	(1,084,217)	(326,556)	—	(1,422,248)
Shareholder dividends ($0.08 per share)	—	—	—	(759,097)	—	(759,097)
Other comprehensive income	—	—	—	—	53,629	53,629
BALANCE AT DECEMBER 31, 2019	9,252,749	462,637	42,977,914	4,649,395	(697,664)	47,392,282
Net loss	—	—	—	(171,658)	—	(171,658)
Issuance of common stock under Employee Stock Purchase Plan	20,279	1,014	93,882	—	—	94,896
Issuance of common stock to Employee Stock Ownership Plan	66,059	3,303	404,281	—	—	407,584
Issuance of common stock under Executive Stock Plan	65,952	3,298	20,720	—	—	24,018
Share based compensation	—	—	463,274	—	—	463,274
Other share retirements	(83,112)	(4,156)	(387,957)	37,213	—	(354,900)
Shareholder dividends ($0.04 per share)	—	—	—	(379,666)	—	(379,666)
Other comprehensive income	—	—	—	—	18,897	18,897
BALANCE AT DECEMBER 31, 2020	9,321,927	$ 466,096	$ 43,572,114	$ 4,135,284	$ (678,767)	$ 47,494,727

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	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (171,658)	$ 6,469,049
Net income from discontinued operations, net of tax	1,624,016	6,218,430
Net (loss) income from continuing operations	(1,795,674)	250,619
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	962,307	1,032,797
Share based compensation	463,274	412,776
Deferred taxes	9,534	9,534
(Gain) loss on sale of assets	(284,273)	20,368
Changes in assets and liabilities:		
Trade accounts receivables	261,192	(618,663)
Inventories	(83,977)	2,469,800
Prepaid income taxes	37,046	75,298
Other assets	339,712	1,348,481
Accounts payable	(1,392,457)	(381,293)
Accrued compensation and benefits	(939,758)	1,057,428
Other accrued liabilities	(714,425)	(515,279)
Income taxes payable	—	(28,267)
Net cash (used in) provided by operating activities - continuing operations	(3,137,499)	5,133,599
Net cash (used in) provided by operating activities - discontinued operations	(1,546,030)	5,097,537
Net cash (used in) provided by operating activities	(4,683,529)	10,231,136
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(249,727)	(424,988)
Acquisition of business, net of cash acquired	(4,797,919)	—
Purchases of investments	(18,665,534)	(18,673,530)
Proceeds from the sale of fixed assets	435,000	—
Proceeds from the sale of investments	18,506,198	8,972,087
Net cash used in investing activities - continuing operations	(4,771,982)	(10,126,431)
Net cash provided by investing activities - discontinued operations	8,702,213	4,904,456
Net cash provided by (used in) investing activities	3,930,231	(5,221,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(563,882)	(743,276)
Proceeds from issuance of common stock, net of shares withheld	118,914	715,410
Purchase of common stock	(354,900)	(1,422,248)
Net cash used in financing activities	(799,868)	(1,450,114)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	38,140	(7,963)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(1,515,026)	3,551,084
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	14,607,510	11,056,426
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	$ 13,092,484	$ 14,607,510
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes refunded	$ (27,722)	$ (73,151)
Interest paid	26,327	37,974
Dividends declared not paid	16,147	200,363
Capital expenditures in accounts payable	—	10,663
Operating right of use assets obtained in exchange for lease obligations	208,650	449,995
Accrued consideration	550,000	—

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 referred to as "CSI," "our," "we" or the "Company") is a Minnesota corporation organized in 1969 that classifies its business into two segments: (1) the Electronics & Software segment (consisting of US-based subsidiary Transition Networks and UK-based subsidiary Net2Edge) which (i) manufactures and sells solutions that provide actionable intelligence, power and connectivity at the edge of networks through PoE products, software and services as well as traditional products such as media converters, network adapters and other connectivity products and (ii) designs, develops, and sells edge network access products, TDM (time-division multiplexing) over IP and other circuit emulation solutions, along with specialized cloud-based software solutions, primarily within the telecommunications market; and (2) the Services and Support segment (consisting of subsidiaries JDL and Ecessa), which (i) provides technology solutions including virtualization, managed services, wired and wireless network design and implementation, and hybrid cloud infrastructure and deployment and (ii) designs, develops, and sells SD-WAN (software-designed wide-area network) solutions.

The Company classifies its businesses into two segments. Non-allocated general and administrative expenses are separately accounted for as "Other" in the Company's segment reporting. Intersegment revenues are eliminated upon consolidation.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All 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, 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, 2020, the Company had $13,092,000 in cash and cash equivalents. Of this amount, $9,424,000 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 is operating cash and certificates of deposit which are fully insured through the FDIC.

Investments: Investments consist of corporate notes and bonds, and commercial paper that are traded on the open market and are classified as available-for-sale and minority investments in strategic technology companies. 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 other comprehensive loss below).

Inventories: Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Provision to reduce inventories to the lower of cost or net realizable value 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 $757,000 and $1,028,000 for 2020 and 2019, 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 annually on April 1 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 when impairment indicators exist as required under generally accepted accounting principles. Potential impairment is determined 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, included in other accrued liabilities in the consolidated balance sheets, for the years ended December 31, 2020 and 2019, 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	
	2020	2019
Beginning balance	$ 513,000	$ 554,000
Amounts charged to expense	59,000	10,000
Actual warranty costs paid	(67,000)	(51,000)
Ending balance	$ 505,000	$ 513,000

Accumulated other comprehensive loss: The components of accumulated other comprehensive loss are as follows:

	Foreign Currency Translation	Unrealized (loss)/gain on securities	Accumulated Other Comprehensive Loss
December 31, 2018	$ (764,000)	$ 13,000	$ (751,000)
Net current period change	55,000	(2,000)	53,000
December 31, 2019	$ (709,000)	$ 11,000	$ (698,000)
Net current period change	9,000	10,000	19,000
December 31, 2020	$ (700,000)	$ 21,000	$ (679,000)

Revenue recognition: The Company's manufacturing operations (Electronics & Software segment) recognize revenue upon delivery of the Company's connectivity infrastructure and data transmission products. To determine when revenue should be recognized, it is important to determine when the transfer of control has occurred. The Company has determined that control transfers for these products upon shipment or delivery to the customer, in accordance with the agreed upon shipping terms. As such, the timing of revenue recognition occurs at a specific point in 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.

The Company has determined that the following performance obligations identified in its Services and Support segment are transferred over time: managed services and professional services (time and materials ("T&M") and fixed price). This segment's managed services performance obligation is a bundled solution, a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer and are recognized evenly over the term of the contract. T&M professional services arrangements are measured over time with an input method based on hours expended towards satisfying this performance obligation. Fixed price professional service arrangements under a relatively longer-term service will also be measured over time with an input method based on hours expended.

The Company has also identified the following performance obligations within its Services and Support segment that are recognized at a point in time which include resale of third-party hardware and software, installation, arranging for another party to transfer services to the customer, and certain professional services. The resale of third-party hardware and software is recognized at a point in time, when the goods are shipped or delivered to the customer's location, in accordance with the agreed upon shipping terms. Installation services are recognized at a point in time when the services are completed. The service the Company provides to arrange for another party to transfer services to the customer is satisfied at a point in time as the Company has transferred control upon the service first being made available to the customer by the third-party vendor, which are required to be presented on a net basis. Depending on the nature of the service, certain professional services transfer control at a point in time. The Company evaluates these circumstances on a case by case basis to determine if revenue should be recognized over time or at a point in time. See Note 2 for further discussion regarding revenue recognition.

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 $2,808,000 in 2020 and $3,600,000 in 2019.

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 2020 and 2019 were $371,000 and $401,000, respectively.

Net income (loss) per share: Basic net income (loss) per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income (loss) 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 shares associated with the long-term incentive compensation plans, which resulted in no dilutive effect for 2020 and a dilutive effect of 65,163 shares in 2019. Due to the net loss in 2020, there was no dilutive impact from outstanding stock options or unvested shares.The Company calculates the dilutive effect of outstanding options and unvested shares using the treasury stock method. Options totaling 697,201 would have been excluded from the calculation of diluted earnings per share for year ended December 31, 2020, because the exercise price was greater than the average market price of common stock during the year and deferred stock awards totaling 110,308 shares would not have been included because of unmet performance conditions. Options totaling 860,539 were excluded from the calculation of diluted earnings per share for year ended December 31, 2019, because the exercise price was greater than the average market price of common stock during the year and deferred stock awards totaling 178,278 shares were not included because of unmet performance conditions.

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.

Accounting standards issued:
In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." The amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. This ASU is intended to provide financial statement users with more decision-useful information about expected credit losses and is effective for annual periods and interim periods for those annual periods beginning after December 15, 2022, which for us is the first quarter ending March 31, 2023. Entities may early adopt beginning after December 15, 2018. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

Accounting standards adopted:
In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement." This new standard requires changes to the disclosure requirements for fair value measurements for certain Level 3 items and specifies that some of the changes must be applied prospectively, while others should be applied retrospectively. This standard is effective for public business entities in fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. the company adopted this standard during 2020 with an immaterial impact to our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes", which, as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes, removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company adopted this standard during 2020 with an immaterial impact to our consolidated financial statements.

NOTE 2 – REVENUE RECOGNITION

In accordance with Accounting Standards Codification ("ASC") 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration that the Company expects to receive in exchange for these goods or services.

Electronics & Software

The Company has determined that the revenue recognition for its Electronics & Software segment occurs upon delivery of the Company's connectivity infrastructure and data transmission products. To determine when revenue should be recognized, it is important to determine when the transfer of control has occurred. The Company has determined that control transfers for these products upon shipment or delivery to the customer, in accordance with the agreed upon shipping terms. As such, the timing of revenue recognition occurs at a specific point in time.

Services & Support

The Company has determined that the following performance obligations identified in its Services & Support segment are transferred over time: managed services and professional services (time and materials ("T&M") and fixed price). The managed services performance obligation is a bundled solution, a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer and are recognized evenly over the term of the contract. T&M professional services arrangements are measured over time with an input method based on hours expended towards satisfying this performance obligation. Fixed price professional service arrangements under a relatively longer-term service will also be measured over time with an input method based on hours expended.

The Company has also identified the following performance obligations within its Services & Support segment that are recognized at a point in time which include resale of third-party hardware and software, installation, arranging for another party to transfer services to the customer, and certain professional services. The resale of third-party hardware and software is recognized at a point in time, when the goods are shipped or delivered to the customer's location, in accordance with the agreed upon shipping terms. Installation services are recognized at a point in time when the services are completed. The service the Company provides to arrange for another party to transfer services to the customer is satisfied at a point in time as the Company has transferred control upon the service first being made available to the customer by the third-party vendor, which are required to be presented on a net basis. Depending on the nature of the service, certain professional services transfer control at a point in time. The Company evaluates these circumstances on a case-by-case basis to determine if revenue should be recognized over time or at a point in time.

Significant Judgments

To determine the transaction price, the Company estimates the amount of variable consideration at the outset of the contract, depending on the facts and circumstances relative to the contract. The Company may provide credits or incentives to its customers, which are accounted for as either variable consideration or consideration payable to the customer. The Company estimates product returns based on historical return rates. The Company constrains (reduces) the estimates of variable consideration such that it is probable that a significant revenue reversal of previously recognized revenue will not occur throughout the life of the contract. When determining if variable consideration should be constrained, management considers whether there are factors outside the Company's control that could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal of revenue. The Company will assess if any incentives it offers to its customer is a consideration payable. The Company accounts for consideration payable to a customer as a reduction of the transaction price, and therefore, of revenue. For contracts with more than one performance obligation, the consideration is allocated between separate products and services based on their stand-alone selling prices. Judgment is required to determine standalone selling prices for each distinct performance obligation. The Company generally determines standalone selling prices based on the actual prices charged to customers and has an established range of amounts that fall within stand-alone selling price for its distinct performance obligations. The Company evaluates this range quarterly.

Costs to Obtain or Fulfill a Contract

The Company evaluates "Other Assets and Deferred Costs" (ASC 340-40), for the accounting for certain costs to obtain and fulfill contracts (or, in some cases, an anticipated contract) with a customer. ASC 340-40 is applicable only to incremental contract costs, those that an entity would not have incurred if the contract had not been obtained, and requires the capitalization of these costs as well as provides guidance on the amortization and impairment considerations. The Company elects the practical expedient and expenses certain costs to obtain contracts when applicable. Within Services & Support, commissions were paid upfront on certain long-term recurring revenue agreements. Total costs to obtain a contract in the years ended December 31, 2020 and 2019 were $52,000 and $0, respectively.

Transaction Price Allocated to Future Performance Obligations

To determine the allocation of the transaction price and amounts allocated to the performance obligations, the Company first determined the standalone selling price for each distinct performance obligation in the contract in order to determine the allocations of the transaction price in proportion to the standalone selling price for each performance obligation in the contract in accordance with ASC 606-10-32-31 and 32-33. Judgment is required to determine standalone selling price for each distinct performance obligation. The Company generally determines standalone selling prices based on the actual prices charged to customers and has an established range of amounts that fall within stand-alone selling price for its distinct performance obligations. The Company evaluates this range quarterly.

Practical Expedients and Exemptions

The Company adopted various practical expedients and policy elections related to the accounting for significant finance components, sales taxes, shipping and handling, costs to obtain a contract and immaterial promised goods or services. The practical expedient to disclose the unfulfilled performance obligations was not made as they are expected to be fulfilled within one year.

Disaggregation of revenue

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that best reflects the consideration we expect to receive in exchange for those goods or services. In accordance with ASC 606-10-50-5, the following tables present how we disaggregate our revenues, which is different for each segment.

For the Electronics & Software segment, we analyze revenue by region and product group, which is as follows for the years ended December 31, 2020 and 2019:

	Electronics & Software Revenue by Region	
	2020	**2019**
North America	$ 29,721,000	$ 39,771,000
International	4,775,000	7,236,000
	$ 34,496,000	$ 47,007,000

	Electronics & Software Revenue by Product Group	
	2020	2019
Intelligent edge solutions	$ 12,162,000	$ 18,442,000
Traditional products	22,334,000	28,565,000
	$ 34,496,000	$ 47,007,000

For the Services & Support segment, we analyze revenue by customer group and type, which is as follows for the years ended December 31, 2020 and 2019:

	Services & Support Revenue by Customer Group	
	2020	2019
Education	$ 4,483,000	$ 1,926,000
Healthcare	887,000	705,000
Financial and other commercial clients	2,708,000	1,268,000
CSI IT operations	699,000	842,000
	$ 8,777,000	$ 4,741,000

	Services & Support Revenue by Type	
	2020	2019
Project & product revenue	$ 5,120,000	$ 2,242,000
Services & support revenue	3,657,000	2,499,000
	$ 8,777,000	$ 4,741,000

Contract Balances

The contract assets associated with the commission costs noted above were $267,000 and $0 at December 31, 2020 and 2019, respectively. The Company does not have material contract liabilities.

NOTE 3 – LEASES

In accordance with ASC Topic 842, the Company recognizes assets and liabilities for the rights and obligations created by leases that extend more than twelve months from the date of the balance sheet. Right of use (“ROU”) assets represent our right to use an underlying asset for the lease term, while lease liabilities represent our obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at the commencement date of a lease based on the present value of lease payments over the lease term. Because the rate implicit in each individual lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

The Company has entered into operating leases for three office locations, including one in February 2019 and one in May 2020 upon the acquisition of Ecessa. These leases have remaining lease terms of 2 to 7 years. One of the leases includes two options to extend the lease for 5 years each, and the other lease includes an option to terminate the lease in 2022. One lease includes a 3% rent adjustment on each anniversary of the lease and another includes a 2.5% annual rent adjustment as well as one free month each year. As of December 31, 2020, total ROU assets and operating lease liabilities were $413,000 and $411,000, respectively. As of December 31, 2019, total ROU assets and operating lease liabilities were $368,000 and $360,000, respectively. All operating lease expense is recognized on a straight-line basis over the lease term. In the years ended December 31, 2020 and 2019, the Company recognized $180,000 and $124,000 in lease expense, respectively. The Company also recognized $82,000 and $0 in sublease income for the years ended December 31, 2020 and 2019, respectively.

Information related to the Company's ROU assets and related lease liabilities were as follows:

	Year Ended December 31	
	2020	2019
Cash paid for operating leases	$ 185,000	$ 112,000
Right-of-use assets obtained in exchange for new operating lease obligations[(1)]	$ 209,000	$ 450,000

	As of December 31	
	2020	2019
Weighted-average remaining lease term	2.2 years	3.3 years
Weighted-average discount rate	3.6%	4.5%

(1) 2019 includes $280,000 for operating leases existing on January 1, 2019 and $188,000 for operating leases that commenced in the first quarter of 2019. 2020 includes $209,000 for an operating lease assumed with the Ecessa acquisition in the second quarter.

Maturities of lease liabilities as of December 31, 2020 were as follows:

2021	$ 225,000
2022	152,000
2023	47,000
2024	4,000
Total lease payments	428,000
Less imputed interest	(17,000)
Total operating lease liabilities	$ 411,000

As of December 31, 2020, the Company does not have any additional future operating lease obligations that have not yet commenced.

NOTE 4 – DISCONTINUED OPERATIONS

On April 5, 2019, the Company sold its Suttle FutureLink™ Fiber business line, including inventory, equipment, and customer relationships, to PPC Broadband Inc. ("PPC"). The transaction was structured as an Asset Purchase Agreement with a simultaneous signing and closing. The sale price was $5,000,000 cash, of which $500,000 was deferred into an escrow account until certain criteria were met and was recorded as restricted cash within the consolidated balance sheet. The Company recognized a gain on the sale of inventory and capital equipment totaling $2,967,000 during the second quarter of 2019. Concurrent with the closing of the transaction, Suttle and PPC entered into a Transition Services Agreement under which Suttle agreed to manufacture products related to the FutureLink™ Fiber business line until September 30, 2019, to ensure seamless supply to the customer base.

On March 11, 2020, the Company sold the remainder of its Suttle business lines, including the SoHo, MediaMAX, and SpeedStar brands and inventory as well as working capital, certain capital equipment, intellectual property, and customer relationships to Oldcastle Infrastructure, Inc. ("Oldcastle") for $8,000,000, with a working capital adjustment 90 days after close. Oldcastle will operate the majority of the acquired Suttle business through its wholly-owned subsidiary, Primex Technologies, Inc. Through the sale to Primex, a separate online equipment auction held in the fourth quarter of 2020, and various other sales, the Company received total proceeds of $8,900,000 and recorded a gain on the sale of $2,247,000 in 2020.

Concurrent with the closing of the transaction, the Company and Oldcastle entered into a Transition Services Agreement ("TSA") under which Suttle continued to manufacture products for Oldcastle for six months, to ensure seamless supply and quality assurance to the existing customer base. Concurrently with the closing of the transaction and the TSA, the Company and Oldcastle also entered into a lease agreement under which Oldcastle will lease two buildings in Hector, Minnesota, where Suttle had conducted operations. Base rents under the lease agreement range from $6,970 to $7,180 per month. The associated assets and liabilities related to this sale were classified as held for sale at December 31, 2019. The presentation of discontinued operations has been retrospectively applied to all prior periods presented.

The assets and liabilities of this discontinued operation that are classified as held for sale are as follows:

	December 31, 2020	December 31, 2019
Trade accounts receivable	$ —	$ 2,235,000
Inventories	—	3,009,000
Other current assets	—	93,000
Total current assets	$ —	$ 5,337,000
Property, plant, and equipment	$ —	$ 883,000
Total noncurrent assets	$ —	$ 883,000
Total assets held for sale	$ —	$ 6,220,000
Accounts payable	$ —	$ 1,111,000
Other accrued liabilities	—	82,000
Total liabilities held for sale	$ —	$ 1,193,000

The financial results of the discontinued operations are as follows:

	Year Ended December 31 2020	Year Ended December 31 2019
Sales	$ 3,024,000	$ 18,879,000
Cost of sales	2,167,000	12,965,000
Selling, general and administrative expenses	520,000	2,684,000
Restructuring expenses	960,000	—
(Gain) loss on sale of assets	(2,247,000)	(2,990,000)
Other income	—	—
Operating income before income taxes	1,624,000	6,220,000
Income tax expense	—	2,000
Income (loss) from discontinued operations	$ 1,624,000	$ 6,218,000

During the year ended December 31, 2020, the Company recorded $960,000 in restructuring expense. This consisted of severance and related benefits costs due to the sale of the remainder of Suttle's business lines and the closure of the plant now that the TSA is completed. We expect total restructuring costs to be $1,000,000, including any remaining shut down costs. The Company paid $708,000 in restructuring charges during 2020 and had $252,000 in restructuring accruals recorded in accrued compensation and benefits at December 31, 2020 that are expected to be paid during 2021.

NOTE 5 –BUSINESS COMBINATIONS

On May 14, 2020, in a reverse triangular merger, the Company completed the acquisition of 100% of Ecessa Corporation. Ecessa designs and distributes software-defined wide area networking (SD-WAN) solutions for businesses through the deployment of over 10,000 field installations (since 2002) of Ecessa Edge®, PowerLink®, and WANworX® controllers. The acquisition expands the Company's IoT intelligent edge products and services and provides opportunities to expand the Company's services platform. The purchase price was $4,642,000, with cash acquired totaling $666,000. The purchase price includes initial consideration of $4,666,000 and $ (24,000) in working capital adjustments.

The assets and liabilities of Ecessa were recorded in the consolidated balance sheet within the Services & Support 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:

		May 14, 2020
Current assets	$	1,101,000
Property, plant, and equipment		127,000
Other long-term assets		421,000
Intangible assets		2,260,000
Goodwill		1,341,000
Total assets		5,250,000
Total liabilities		608,000
Net assets acquired	$	4,642,000

Identifiable intangible assets are definite-lived assets. These assets include trade name/trademark/internet domain assets, non-compete agreements, customer relationships, and internally developed software intangible assets, and have a weighted average amortization period of 7 years, which matches the weighted average useful life of the assets. Goodwill recorded as part of the purchase price allocation is not tax deductible. The pro forma impact of Ecessa was not significant to the Company's results for the year ended December 31, 2020. Ecessa's revenue and operating loss since acquisition are $1,265,000 and $ (598,000), respectively. The operating loss is primarily due to the revaluation of $1,561,000 of pre-acquisition deferred revenue to a preliminary fair value of $257,000 as of the opening balance sheet date and $205,000 of intangibles amortization, thus lowering revenue recognized and increasing post-acquisition expenses on a similar operating cost structure. The Company is still in process of integrating Ecessa into its operations and therefore has not realized all potential cost-saving synergies.

On November 3, 2020, the Company acquired the operating assets of privately held IVDesk Minnesota, Inc. ("IVDesk") from a third-party receiver ("Receiver").IVDesk provides private cloud services to small- and mid-size businesses (SMB), with a particular focus on the financial services industry. The acquisition expands the Company's monthly recurring revenue service model, bringing additional resources and experience in cloud-delivered applications. The purchase price was $1,368,000 and includes initial consideration of $950,000, working capital adjustments of $ (132,000), and $550,000 in contingent consideration. The Company has agreed to pay up to $550,000 in additional consideration upon retaining a certain customer level 120 days after closing. The Company provided the Receiver as seller a $550,000 letter of credit to secure its obligation to pay the earn-out under the asset purchase agreement. At December 31, 2020, the Company had estimated liabilities of $550,000 related to the outstanding consideration. During March 2021, upon meeting the requirements of the earn-out, the Company paid the Receiver the additional consideration.

The estimated assets and liabilities of IVDesk are recorded in the consolidated balance sheet within the Services & Support segment at December 31, 2020. The preliminary purchase price allocation was based on estimates of the fair value of assets acquired and liabilities assumed, and included total assets of $1,500,000, including estimated goodwill of $745,000 and estimated intangibles of $720,000, and total liabilities of $132,000. The fair value of acquired identifiable intangible assets of $720,000 is provisional depending on the final valuations for those assets. All balances recorded are estimated amounts and the Company expects to finalize the purchase price allocation during the first half of 2021 as the valuation of identifiable assets and liabilities is completed. The pro forma impact of IVDesk was not significant to the Company's results for the year ended December 31, 2020. IVDesk's revenue since acquisition was $401,000.

NOTE 6 –CASH EQUIVALENTS AND INVESTMENTS

The following tables show the Company's cash equivalents and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash equivalents or short and long-term investments as of December 31, 2020 and December 31, 2019:

December 31, 2020

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 9,424,000	$ —	$ —	$ 9,424,000	$ 9,424,000	$ —	$ —
Subtotal	9,424,000	—	—	9,424,000	9,424,000	—	—
Investments:							
Commercial Paper	700,000	—	—	700,000	—	700,000	—
Corporate Notes/Bonds	7,658,000	7,000	(1,000)	7,664,000	—	2,059,000	5,605,000
Convertible Debt	605,000	—	—	605,000	—	—	605,000
Subtotal	8,963,000	7,000	(1,000)	8,969,000	—	2,759,000	6,210,000
Total	$ 18,387,000	$ 7,000	$ (1,000)	$ 18,393,000	$ 9,424,000	$ 2,759,000	$ 6,210,000

December 31, 2019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 8,761,000	$ —	$ —	$ 8,761,000	$ 8,761,000	$ —	$ —
Subtotal	8,761,000	—	—	8,761,000	8,761,000	—	—
Investments:							
Commercial Paper	8,695,000	—	(1,000)	8,694,000	—	8,694,000	—
Corporate Notes/Bonds	756,000	—	—	756,000	—	756,000	—
Convertible Debt	250,000	—	—	250,000	—	—	250,000
Subtotal	9,701,000	—	(1,000)	9,700,000	—	9,450,000	250,000
Total	$ 18,462,000	$ —	$ (1,000)	$ 18,461,000	$ 8,761,000	$ 9,450,000	$ 250,000

The following table summarizes the estimated fair value of our investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of December 31, 2020:

	Amortized Cost	Estimated Market Value
Due within one year	$ 2,759,000	$ 2,759,000
Due after one year through five years	6,204,000	6,210,000
	$ 8,963,000	$ 8,969,000

The Company tests for other than temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments until it can recover the full principal amount and has the ability to do so based on other sources of liquidity. The Company expects such recoveries to occur prior to the contractual maturities.

The Company did not recognize any gross realized gains or gross realized losses during the years ending December 31, 2020 and 2019, respectively. If the Company had realized gains or losses, they would be included within investment and other income in the accompanying consolidated statements of (loss) income.

In April 2020, the Company made an $899,000 minority investment in the common stock of Quortus Ltd., a UK-based company that provides virtual core network software for Private LTE solutions for critical and secure communications. This investment is important for the Company's Electronics & Software segment because this segment has been partnering with Quortus to integrate the Quortus Private LTE core in existing and new products for that segment's federal business, network extensions, and private networks for enterprises. The Company's investment represents less than 10% of the outstanding equity of Quortus Ltd. The Company uses the cost method to account for investments in common stock of entities such as Quortus if the Company does not have the ability to exercise significant influence over the operating and financial matters of the entity. The Company also uses the cost method to account for its investments that are not in the form of common stock or in-substance common stock in entities if the Company does not have the ability to exercise significant influence over the entity's operating and financial matters.

NOTE 7 - INVENTORIES

Inventories consist of:

	December 31	
	2020	2019
Finished goods	$ 7,871,000	$ 6,728,000
Raw and processed materials	826,000	1,803,000
	$ 8,697,000	$ 8,531,000

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

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

	Estimated	December 31	
	useful life	2020	2019
Land		$ 2,852,000	$ 2,965,000
Buildings and improvements	3-40 years	8,891,000	8,727,000
Machinery and equipment	3-15 years	6,404,000	9,347,000
Furniture and fixtures	3-10 years	3,012,000	3,628,000
Construction in progress		27,000	—
		21,186,000	24,667,000
Less accumulated depreciation		(13,944,000)	(16,429,000)
		$ 7,242,000	$ 8,238,000

NOTE 9 – GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the year ended December 31, 2020 by company are as follows:

	Ecessa	IVDesk	Total
January 1, 2020	$ —	$ —	$ —
Acquisition	1,341,000	745,000	2,086,000
December 31, 2020	$ 1,341,000	$ 745,000	$ 2,086,000
Gross goodwill	1,341,000	745,000	2,086,000
Accumulated impairment loss	—	—	—
Balance at December 31, 2020	$ 1,341,000	$ 745,000	$ 2,086,000

The fair value of goodwill of $745,000 and acquired identifiable intangible assets of $720,000 is provisional at December 31, 2020 depending on the final valuations for those assets.

The Company's identifiable intangible assets with finite lives (excluding the provisional $720,000 related to IVDesk) are being amortized over their estimated useful lives and were as follows:

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net
Trade Name/Trademark/Internet Domain Assets	$ 90,000	$ (5,000)	$ 85,000
Non-compete Agreements	80,000	(16,000)	64,000
Customer Relationships	290,000	(34,000)	256,000
Internally Developed Software	1,800,000	(150,000)	1,650,000
	$ 2,260,000	$ (205,000)	$ 2,055,000

Amortization expense on these identifiable intangible assets was $205,000 and $0 in 2020 and 2019 respectively. The amortization expense is included in selling, general and administrative expenses. The estimated future amortization expense for identifiable intangible assets during the next five fiscal years is as follows:

Year Ending December 31:	
2021	$ 351,000
2022	351,000
2023	335,000
2024	324,000
2025	290,000
Thereafter	404,000

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Line of credit: On August 28, 2020, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association, establishing a $5,000,000 line of credit facility agreement, that replaced a prior facility. On October 29, 2020, the Company entered into a First Amendment to the Credit Agreement. Under the Credit Agreement, as amended, the Company has the ability to obtain one or more letters of credit in an aggregate amount up to $2,000,000, subject to the general terms of the credit agreement.

The Company had no outstanding borrowings against the line of credit, or the prior credit facility, at December 31, 2020 or December 31, 2019 and $1,051,000 of the credit line is available for use at December 31, 2020. Due to the revolving nature of loans under this credit facility, additional borrowings and periodic repayments and re-borrowings may be made until the maturity date. Interest on borrowings on the credit line is at LIBOR plus 1.25%, with a minimum LIBOR rate of 0.75%, (2.0% at December 31, 2020). The Credit Agreement expires August 28, 2021 and is secured by government securities owned and pledged by the Company. The Credit Agreement contains financial covenants including a tangible net worth minimum. The Company was in compliance with its financial covenants at December 31, 2020.

As of December 31, 2020, 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 that 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 recognized expense/(income) of $66,000 and $164,000 in 2020 and 2019, respectively. Accrual balances for long-term compensation plans at December 31, 2020 and 2019 were $230,000 and $164,000, respectively. There were no award payouts in 2020 and 2019. Awards under the 2018 to 2020 plans will be paid out 50% in cash and 50% in stock. Awards under the 2019 to 2021 and 2020 to 2022 plans will be paid out 75% in stock and 25% in cash. The stock portion of these awards are treated as equity plans and included within the Stock Compensation footnote within the Deferred Stock Outstanding section below.

Other contingencies: In the ordinary course of business, the Company is exposed to legal actions and claims and incurs costs to defend against these 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, results of operations, or cash flows.

NOTE 11 – 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. The 2011 Incentive Plan, as amended, allows the issuance of up to 2,500,000 shares of common stock.

During 2020, stock options covering 191,301 shares were awarded to key executive employees and non-employee directors, which options expire seven years from the date of award and generally vest 25% each year beginning one year after the date of award. The Company also granted deferred stock awards of 89,131 shares to key employees during 2020 under the Company’s long-term incentive plan for the 2020 to 2022 period. These awards vest over three years with the first vesting date being May 6, 2021.

At December 31, 2020, 431,032 shares have been issued under the 2011 Incentive Plan, 1,445,885 shares are subject to currently outstanding options, deferred stock awards, and unvested restricted stock units, and 623,083 shares remained available for future issuance under the 2011 Incentive Plan.

Stock Options Outstanding

The following table summarizes changes in the number of outstanding stock options under the Director Plan, Stock Plan and the 2011 Incentive Plan during the two years ended December 31, 2020.

	Options	Weighted average exercise price per share	Weighted average remaining contractual term
Outstanding – December 31, 2018	1,380,492	$ 7.56	4.18 years
Awarded	100,769	2.69	
Exercised	(151,950)	4.08	
Forfeited	(198,839)	9.33	
Outstanding – December 31, 2019	1,130,472	7.28	3.48 years
Awarded	191,301	5.10	
Exercised	(8,000)	2.64	
Forfeited	(140,583)	10.90	
Outstanding – December 31, 2020	1,173,190	6.52	3.35 years
Exercisable at December 31, 2020	877,926	$ 7.20	2.59 years
Expected to vest December 31, 2020	1,173,190	$ 6.52	3.35 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	
	2020	2019
Expected volatility	40.2%	31.3%
Risk free interest rate	0.4%	2.2%
Expected holding period	6 years	6 years
Dividend yield	1.3%	3.0%

Total unrecognized compensation expense was $222,000 as of December 31, 2020, which is expected to be recognized over the next 2.8 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 $437,000 based on the Company's stock price at December 31, 2020. The intrinsic value of options exercised during the year was $18,000 in 2020 and $380,000 in 2019. Net cash proceeds from the exercise of all stock options were $0 in 2020 and 2019. The following table summarizes the status of stock options outstanding at December 31, 2020:

Range of Exercise Prices	Shares	Weighted Average Remaining Option Life	Weighted Average Exercise Price
$2.50 to $4.99	515,989	4.6 years	$ 3.75
$5.00 to $7.49	353,359	3.6 years	6.17
$7.50 to $9.99	0	0 years	0.00
$10.00 to $12.49	244,477	1.2 years	11.32
$12.50 to $14.15	59,365	0.2 years	12.97

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 $0 in both 2020 and 2019. 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 from December 31, 2018 to December 31, 2020:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2018	270,066	$ 4.48
Granted	161,107	2.76
Vested	(4,575)	4.56
Forfeited	(105,371)	3.90
Outstanding – December 31, 2019	321,227	3.37
Granted	95,631	5.33
Vested	(57,952)	2.81
Forfeited	(86,211)	4.22
Outstanding – December 31, 2020	272,695	3.91

The grant date fair value is calculated based on the Company's closing stock price as of the grant date. As of December 31, 2020, the total unrecognized compensation expense related to the deferred stock shares was $347,000 and is expected to be recognized over a weighted-average period of 2.1 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 2020 and 2019 was $463,000 and $413,000 before income taxes and $366,000 and $326,000 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 85% of the price at the end of each current quarterly plan term. The most recent term ended December 31, 2020. The ESPP is considered compensatory under current rules. At December 31, 2020, after giving effect to the shares issued as of that date, 68,843 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 20% after two years of service and incrementally thereafter, with full vesting after six years. At December 31, 2020, the ESOP held 706,287 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 2020 ESOP contribution was $328,263 for which the Company issued 71,830 shares in March 2021. The 2019 ESOP contribution was $407,584 for which the Company issued 66,059 shares in 2020.

NOTE 12 – COMMON STOCK

In August 2019, the Company announced the adoption of a $2.0 million stock repurchase program running through the end of 2020. Under the stock repurchase program, repurchases can be made from time to time using a variety of methods, including through open market purchases or in privately negotiated transactions in compliance with the rules of the United States Securities and Exchange Commission and other applicable legal requirements. This new $2.0 million repurchase program replaces a stock repurchase program that the Company had adopted in 2008. At December 31, 2020, there remained $341,000 under this repurchase program.

NOTE 13 - INCOME TAXES

Income tax (benefit) expense from continuing operations consists of the following:

	Year Ended December 31	
	2020	2019
Current year income taxes (benefit):		
Federal	$ (9,000)	$ (45,000)
State	20,000	20,000
	11,000	(25,000)
Deferred income taxes:		
Federal	$ 9,000	$ 10,000
	9,000	10,000
Income tax expense (benefit)	$ 20,000	$ (15,000)

The Company's Austin Taylor Communications, Ltd. unit operated in the United Kingdom (U.K.) and is subject to U.K. rather than U.S. income taxes. Austin Taylor had no activity in 2020 and 2019. At the end of 2020, Austin Taylor's net operating loss carry-forward was $7,462,000. The Company remains uncertain whether 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 any potential carry-forward benefit from Austin Taylor.

Net2Edge, Ltd., formally known as Transition Networks EMEA, Ltd., operates in the U.K. and is subject to U.K. rather than U.S. income taxes. Net2Edge, Ltd. had pretax losses of $955,000 and $1,519,000 in 2020 and 2019, respectively. At the end of 2020, Net2Edge, Ltd.'s net operating loss carry-forward was $9,700,000, of which a full valuation allowance is recorded.

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 no activity in 2020 and 2019. At the end of 2020, Transition Networks China's net operating loss carry-forward was $0. Transition Networks China ceased operations in 2014 and incurred minor non-operating expenditures in 2015 to close the operations. As of 2016, Transition Networks China no longer has any operational activity.

Suttle Costa Rica operated in Costa Rica and was subject to Costa Rica income taxes. As of December 31, 2020, the amount of unremitted earnings outside of the United States was not significant to the Company's liquidity and was available to fund investments abroad. The Company closed its Costa Rica facility in 2017 and no longer has any operational activity in Costa Rica. Suttle Costa Rica had no activity in 2020 and 2019. At the end of 2020, Suttle Costa Rica's net operating loss carry-forward was $0.

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

	Year Ended December 31	
	2020	2019
Tax at U.S. statutory rate	21.0%	21.0%
State income taxes, net of federal benefit	(0.8)	26.2
Foreign income taxes, net of foreign tax credits	(11.3)	98.9
Other nondeductible items	(3.3)	(2.1)
Effect of increase in uncertain tax positions	—	17.2
Change in valuation allowance	(8.7)	(181.7)
Other	2.0	14.0
Effective tax rate	(1.1%)	(6.5%)

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

	2020	2019
Deferred tax assets:		
Allowance for doubtful accounts	$ 26,000	$ 29,000
Inventory	798,000	1,254,000
Accrued and prepaid expenses	314,000	302,000
Lease liability	70,000	44,000
Domestic net operating loss carry-forward	3,398,000	2,141,000
Long-term compensation plans	—	248,000
Nonemployee director stock compensation	552,000	514,000
Other stock compensation	82,000	51,000
Intangible assets	—	253,000
Foreign net operating loss carry-forwards and credits	3,261,000	3,087,000
Federal and state credits	767,000	767,000
Other	18,000	17,000
Gross deferred tax assets	9,286,000	8,707,000
Valuation allowance	(8,728,000)	(8,170,000)
Net deferred tax assets	558,000	537,000
Deferred tax liabilities		
Depreciation	(318,000)	(485,000)
Intangible assets	(175,000)	—
Lease right-of-use asset	(65,000)	(42,000)
Net deferred tax liability	(558,000)	(527,000)
Total net deferred tax asset	$ —	$ 10,000

The Company assesses available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ending December 31, 2020. This objective evidence limits the ability to consider other subjective evidence such as the projections for future growth. On the basis of this evaluation, as of December 31, 2020, a valuation allowance of $8,728,000 has been recorded to reflect the portion of the deferred tax asset that is more likely to not be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as the Company’s projections for growth.

At December 31, 2020, the Company has a federal net operating loss carryforward from 2015 through 2020 activity of approximately $10,940,000 that is available to offset future taxable income and begins to expire in 2035. The Company also has a federal capital loss carryforward from 2018 of approximately $1,930,000 that is available to offset future capital gains and expires in 2023.

During 2015, the Company engaged in a research and development tax credit study for the tax years 2011 to 2014. As a result of this study, the Company claimed $1,554,000 of federal and $1,024,000 of state research and development credits. The Company amended prior year tax returns to claim these credits and offset prior year taxes paid. Credits not used to reduce taxes are available to be carried forward. At December 31, 2020, the Company has an estimated federal research and development credit carryforward of approximately $467,000 and a state research and development credit carryforward of approximately $594,000.

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 these 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 uncertain tax positions are summarized as follows:

	2020	2019
Uncertain tax positions – January 1	$ 101,000	$ 60,000
Gross increases - current period tax positions	14,000	41,000
Uncertain tax positions – December 31, 2020	$ 115,000	$ 101,000

Included in the balance of uncertain tax positions at December 31, 2020 are $115,000 of tax benefits that if recognized would affect the tax rate. The Company's unrecognized tax benefits will be reduced by $0 in the next twelve months due to statute of limitations expirations. There are no other expected significant changes in the Company's uncertain tax positions in the next twelve months. The Company's income tax liability accounts included accruals for interest and penalties of $0 at December 31, 2020. The Company's 2020 income tax expense decreased by $0 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 2017 tax year.

NOTE 14 - INFORMATION CONCERNING INDUSTRY SEGMENTS AND MAJOR CUSTOMERS

Following the acquisition of Ecessa during the second quarter of 2020 and the merging of certain operations, the Company classifies its remaining businesses into two segments as follows:

- Electronics & Software: designs, develops and sells Intelligent Edge solutions that provide connectivity and power through PoE products and actionable intelligence to end devices in an IoT ecosystem through embedded and cloud-based management software. In addition, this segment continues to generate revenue from its traditional products consisting of, media converters, NICs, and Ethernet switches that offer the ability to affordably integrate the benefits of fiber optics into any data network; and

- Services & Support: provides technology solutions that address prevalent IT challenges, including network resiliency, security products and services, network virtualization, and cloud migrations, IT managed services, wired and wireless network design and implementation, and converged infrastructure configuration, deployment and management, and SD-WAN network devices.

Management has chosen to organize the enterprise and disclose reportable segments based on products and services. Intersegment revenues are eliminated upon consolidation. "Other" includes non-allocated corporate overhead costs. As a result of our treatment of Suttle as discontinued operations, "Other" includes amounts previously allocated to Suttle that do not meet the criteria to be included in income from discontinued operations.

Electronics & Software manufactures its products in Asia and the United States and makes sales in both the U.S. and international markets. Services & Support operates in the U.S. and primarily makes sales in the U.S. Net long-lived assets held in foreign countries were approximately $49,000 and $112,000 at December 31, 2020 and 2019, respectively. Consolidated sales to U.S. customers were approximately 87% and 74% of sales from continuing operations in 2020 and 2019 respectively. In 2020, sales to two of Electronics & Software's customers accounted for 18.7% and 17.3% of consolidated sales and one of Services & Support's customers accounted for 10.3% of consolidated sales. In 2019, sales to two of Electronics & Software's customers accounted for 21.2% and 16.2% of consolidated sales. At December 31, 2020, Electronics & Software had one customer that made up 17% of consolidated accounts receivable and Services & Support had one customer that made up 38% of accounts receivable. At December 31, 2019, Electronics & Software had two customers that made up 45% and 17% of consolidated accounts receivable.

Information concerning the Company's operations in the various segments for the years ended December 31, 2020 and 2019 is as follows:

	Electronics & Software	Services & Support	Other	Intersegment Eliminations	Total
2020					
Sales	$ 34,496,000	$ 8,777,000	$ —	$ (697,000)	$ 42,576,000
Cost of sales	19,606,000	5,798,000	—	(35,000)	25,369,000
Gross profit	14,890,000	2,979,000	—	(662,000)	17,207,000
Selling, general and administrative expenses	13,875,000	2,669,000	3,337,000	(662,000)	19,219,000
Acquisition costs	—	—	685,000	—	685,000
Operating income (loss)	1,015,000	310,000	(4,022,000)	—	(2,697,000)
Other income (expense)	(10,000)	(32,000)	964,000	—	922,000
Income (loss) from continuing operations before tax	$ 1,005,000	$ 278,000	$ (3,058,000)	$ —	$ (1,775,000)
Depreciation and amortization	$ 288,000	$ 292,000	$ 382,000	$ —	$ 962,000
Capital expenditures	$ 81,000	$ 14,000	$ 155,000	$ —	$ 250,000
Assets	$ 15,398,000	$ 8,521,000	$ 31,664,000	$ (27,000)	$ 55,556,000

	Electronics & Software		Services & Support		Other		Intersegment Eliminations		Total
2019									
Sales	$	47,007,000	$	4,741,000	$	—	$	(842,000)	$	50,906,000
Cost of sales		25,613,000		3,259,000		—		(152,000)		28,720,000
Gross profit		21,394,000		1,482,000		—		(690,000)		22,186,000
Selling, general and administrative expenses		17,354,000		1,485,000		4,028,000		(690,000)		22,177,000
Operating income (loss)		4,040,000		(3,000)		(4,028,000)		—		9,000
Other income (expense)		(7,000)		(10,000)		243,000		—		226,000
Income (loss) from continuing operations before tax	$	4,033,000	$	(13,000)	$	(3,785,000)	$	—	$	235,000
Depreciation and amortization	$	360,000	$	92,000	$	581,000	$	—	$	1,033,000
Capital expenditures	$	81,000	$	69,000	$	275,000	$	—	$	425,000
Assets	$	19,902,000	$	1,694,000	$	37,582,000	$	(27,000)	$	59,151,000

NOTE 15 – 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.

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, are summarized below:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 9,424,000	$ —	$ —	$ 9,424,000
Subtotal	9,424,000	—	—	9,424,000
Short-term investments:				
Commercial Paper	—	700,000	—	700,000
Corporate Notes/Bonds	—	2,059,000	—	2,059,000
Subtotal	—	2,759,000	—	2,759,000
Long-term investments:				
Corporate Notes/Bonds	—	5,605,000	—	5,605,000
Convertible Debt	—	—	605,000	605,000
Subtotal	—	5,605,000	605,000	6,210,000
Current Liabilities:				
Accrued Consideration	—	—	(550,000)	(550,000)
Subtotal	—	—	(550,000)	(550,000)
Total	$ 9,424,000	$ 8,364,000	$ 55,000	$ 17,843,000

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 8,761,000	$ —	$ —	$ 8,761,000
Subtotal	8,761,000	—	—	8,761,000
Short-term investments:				
Commercial Paper	—	8,694,000	—	8,694,000
Corporate Notes/Bonds	—	756,000	—	756,000
Subtotal	—	9,450,000	—	9,450,000
Long-term investments:				
Convertible Debt	—	—	250,000	250,000
Subtotal	—	—	250,000	250,000
Total	$ 8,761,000	$ 9,450,000	$ 250,000	$ 18,461,000

The estimated fair value of contingent consideration as of December 31, 2020 was $550,000, as noted above. The estimated fair value is considered a level 3 measurement because the probability weighted discounted cash flow methodology used to estimate fair value includes the use of significant unobservable inputs, primarily the contractual contingent consideration revenue targets and assumed probabilities. There was no change in the estimated contingent consideration during the year ended December 31, 2020. In March 2021, the Company paid the full amount of the $550,000 contingent consideration to the Receiver.

We record transfers between levels of the fair value hierarchy, if necessary, at the end of the reporting period. There were no transfers between levels during 2020 and 2019.

NOTE 16 – GENERAL COMMITMENTS

On August 2, 2018, the Company entered into a purchase agreement with Launch Properties, LLC for the sale of the Company's building located at 10900 Red Circle Drive, Minnetonka, MN for $10,000,000. The building currently includes the Company's corporate administrative offices, as well as some operations for Transition Networks and JDL Technologies. This agreement was terminated on July 28, 2020 and earnest money totaling $225,000 was transferred to the Company and recognized as other income in the accompanying condensed consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2020. The Company is reviewing options to continue to use or sell the property.

NOTE 17 – SUBSEQUENT EVENTS

On March 1, 2021, the Company entered into an Agreement and Plan of Merger with Helios Merger Co. and Pineapple Energy LLC pursuant to which Pineapple would become a wholly owned subsidiary of the Company (the "Merger"). In connection with the Merger, CSI intends to pursue dispositions of its existing assets and businesses prior to the closing of the Merger. To the extent these dispositions occur, CSI expects to declare a cash dividend that distributes a portion of the proceeds from these dispositions to its shareholders as of a pre-closing record date.

Following the closing, CSI will use commercially reasonable efforts to complete the dispositions of these assets as soon as reasonably practicable (and, in any event, within 18 months of the closing). Proceeds that become available from the dispositions that occur following the closing of the Merger will be distributed pro rata to the legacy shareholders pursuant to the contingent value rights agreement described above. CSI will continue to support these existing business lines as it pursues new owners for these businesses.

In connection with the execution of the Merger agreement, the Company announced thatCSI and Pineapple Energy were exploring equity financing through a private placement that would close in connection with the closing of Merger, with proceeds to be used by the combined company to finance additional acquisitions and working capital needs of the combined company.

(b) SUPPLEMENTAL FINANCIAL INFORMATION

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

	Quarter Ended			
	March 31	**June 30**	**Sep 30**	**Dec 31**
2020				
Sales	$ 9,163	$ 9,628	$ 12,110	$ 11,675
Operating (loss) income from continuing operations	(1,224)	(1,646)	306	(133)
Net (loss) income from continuing operations	(809)	(1,367)	554	(174)
Net income (loss) from discontinued operations	2,313	(569)	(291)	171
Net income (loss)	1,504	(1,936)	263	(3)
Basic net (loss) income per share				
Continuing operations	$ (0.09)	$ (0.15)	$ 0.06	$ (0.01)
Discontinued operations	$ 0.25	$ (0.06)	$ (0.03)	$ 0.01
Diluted net (loss) income per share				
Continuing operations	$ (0.09)	$ (0.15)	$ 0.06	$ (0.01)
Discontinued operations	$ 0.25	$ (0.06)	$ (0.03)	$ 0.01
2019				
Sales	$ 11,216	$ 10,704	$ 13,622	$ 15,364
Operating (loss) income from continuing operations	(821)	(1,129)	772	1,187
Net (loss) income from continuing operations	(771)	(1,069)	877	1,214
Net income from discontinued operations	1,010	3,842	860	506
Net income	239	2,773	1,737	1,720
Basic net (loss) income per share				
Continuing operations	$ (0.08)	$ (0.11)	$ 0.09	$ 0.13
Discontinued operations	$ 0.11	$ 0.41	$ 0.09	$ 0.06
Diluted net (loss) income per share				
Continuing operations	$ (0.08)	$ (0.11)	$ 0.09	$ 0.13
Discontinued operations	$ 0.11	$ 0.41	$ 0.09	$ 0.05

The company recorded a gain of $2,161,000 on the sale inventory, working capital, and certain capital equipment to Primex in the first quarter of 2020.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the filing of this Form 10-K, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2020. Based on that evaluation, as detailed below, management concluded that the Company's disclosure controls and procedures are effective.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of the Company's management, including the CEO and CFO, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "Framework"). Based on that evaluation, management concluded that the Company's internal controls and procedures are effective.

Inherent Limitations on Control Systems

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be or have been detected. These inherent limitations include the realities that judgments in decision making can by faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control

Except as noted above, there were no other changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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 2021 Annual Meeting of Shareholders ("2021 Proxy Materials") and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 "Delinquent Section 16(a) Reports" in the Company's 2021 Proxy Materials, and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 2021 Proxy Materials and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 2021 Proxy Materials, and is expressly incorporated herein by reference.

Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 2021 Proxy Materials, and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 2021 Proxy Materials, and is incorporated herein by reference.

The information required by Item 407(a) will be set forth in the Company's 2021 Proxy Materials caption "Corporate Governance and Board Matters" and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 2021 Proxy Materials, and is incorporated herein by reference. Alternatively, this information will be included in an amendment to this Form 10-K on Form 10-K/A within 120 days of December 31, 2020.

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 31 to 58 herein:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2020 and 2019
- Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the years ended December 31, 2020 and 2019
- Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020 and 2019
- Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019
- Notes to Consolidated Financial Statements

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

The 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**

Regulation S-K Reference	Title of Document	Location
2.1	Agreement and Plan of Merger, dated March 1, 2021, by and among Communications Systems, Inc., Helios Merger Co., Pineapple Energy LLC, Lake Street Solar LLC, and Randall D. Sampson	Filed as Exhibit 2.1 to the Form 8-K dated March 1, 2021 and incorporated herein by reference.
2.2	Asset Purchase Agreement dated March 11, 2020, by and among Oldcastle Infrastructure, Inc., Suttle, Inc. and Communications Systems, Inc.	Filed as Exhibit 10.1 to Form 8-K dated March 11, 2020 and incorporated herein by reference.
2.3	Agreement and Plan of Merger between Communications Systems, Inc., Resilient Corporation and Ecessa Corporation dated as of May 8, 2020	Filed as Exhibit 2.1 to the Form 10-Q for the quarter ended March 31, 2020 and incorporated herein by reference.
3.1	Articles of Incorporation, as amended	Filed as Exhibit 3.1 to the Form 10-Q for the quarter ended June 30, 2014 and incorporated herein by reference.
3.2	Bylaws, as amended through April 10, 2020	Filed as Exhibit 3.2 to the Form 10-Q for the quarter ended March 31, 2020 and incorporated herein by reference.
4.1	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	Filed herewith.
10.1	Credit Agreement dated August 28, 2020 by and between Communications Systems, Inc. and Wells Fargo Bank, National Association	Filed as Exhibit 10.1 to the Form 8-K dated August 28, 2020 and incorporated herein by reference.

10.1.1		First Amendment dated October 29, 2020 to Credit Agreement dated August 28, 2020 by and between Communications Systems, Inc., and Wells Fargo Bank, National Association	Filed as Exhibit 10.1 to the Form 8-K dated October 29, 2020 and incorporated herein by reference.
10.2		Amended Security Account Agreement dated August 28, 2020 by and between Communications Systems, Inc., and Wells Fargo Bank, National Association	Filed as Exhibit 10.2 to the Form 8-K dated August 28, 2020 and incorporated herein by reference.
10.3		Revolving Line of Credit Note dated August 28, 2020 in the amount of $5.0 million from Communications Systems, Inc. to Wells Fargo Bank, National Association	Filed as Exhibit 10.3 to the Form 8-K dated August 28, 2020 and incorporated herein by reference.
10.4		Continuing Guaranty of Communications Systems, Inc. obligations by Ecessa Corporation, JDL Technologies, Inc., Transition Networks, Inc., and Twisted Technologies, Inc.	Filed as Exhibit 10.4 to the Form 8-K dated August 28, 2020 and incorporated herein by reference.
10.5	*	Employee Stock Ownership Plan and Trust, effective as of January 1, 2009	Filed as Exhibit 10.3 to the Form 10-K for the year ended December 31, 2011 (2011 Form 10-K) and incorporated herein by reference.
10.5.1	*	First Amendment, dated October 21, 2011, to the Communications Systems, Inc. Employee Stock Ownership Plan and Trust.	Filed as Exhibit 10.3.1 to the 2011 Form 10-K and incorporated herein by reference.
10.5.2	*	Third Amendment, dated December 14, 2012 to the Communications Systems, Inc. Employee Stock Ownership Plan and Trust.	Filed as Exhibit 10.1 to the Form 8-K dated December 14, 2012 and incorporated herein by reference.
10.5.3	*	Fourth Amendment, dated January 1, 2015 to the Communications Systems, Inc. Employee Stock Ownership Plan and Trust	Filed as Exhibit 10.3.3 to the Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.6	*	1990 Employee Stock Purchase Plan, as amended May 21, 2015	Filed as Appendix B to the Proxy Statement dated April 10, 2015 for the 2015 Annual Meeting of Shareholders and incorporated herein by reference.
10.7	*	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.
10.8	*	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	*	Communications Systems Inc. 2011 Executive Incentive Compensation Plan, as amended May 23, 2018	Filed as Appendix A to the Proxy Statement dated April 10, 2018 for the 2018 Annual Meeting of Shareholders and incorporated herein by reference.

10.10	*	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.
10.11		Form of Communications Systems, Inc. Change of Control Agreement for Executives	Filed as Exhibit 10.13 to the 2018 Form 10-K and incorporated herein by reference.
10.12		Employment Agreement with Anita Kumar	Filed herewith.
10.13		Voting Agreement, dated March 1, 2021, by and among Communications Systems, Inc., Pineapple Energy LLC, and the holders of capital stock of Communications Systems, Inc.	Filed as Exhibit 10.1 to the Form 8-K dated March 1, 2021 and incorporated herein by reference.
10.14		Form of Contingent Value Rights Agreement	Filed as Exhibit 10.2 to the Form 8-K dated March 1, 2021 and incorporated herein by reference.
21		Subsidiaries of the Registrant	Filed herewith.
23.1		Consent of Independent Registered Public Accounting Firm	Filed herewith.
24		Power of Attorney	Included in signatures at page 65.
31.1		Certification of Chief Executive Officer	Filed herewith.
31.2		Certification of Chief Financial Officer	Filed herewith.
32		Certification under USC § 1350	Filed herewith.
99.1		Press Release dated March 30, 2020 Announcing 2020 Fourth Quarter and Year End Financial Results	Filed herewith.

The exhibits referred to in this Exhibit Index will be supplied to a shareholder at a charge of $0.25 per page upon written request directed to CSI's Assistant Secretary at the executive offices of the Company.

ITEM 16. FORM 10-K SUMMARY

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 31, 2021

/s/ Anita Kumar
Anita Kumar, Chief Executive Officer

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 ANITA KUMAR and MARK D. FANDRICH as their true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for them and in their 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 they might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or their substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	Title	Date
/s/Anita Kumar Anita Kumar	Chief Executive Officer	March 31, 2021
/s/Mark D. Fandrich Mark D. Fandrich	Group Business President and Chief Financial Officer (Principal Financial Officer)	March 31, 2021
/s/Kristin A. Hlavka Kristin A. Hlavka	Corporate Controller (Principal Accounting Officer)	March 31, 2021
/s/Roger H.D. Lacey Roger H.D. Lacey	Executive Chairman of the Board of Directors	March 31, 2021
/s/Randall D. Sampson Randall D. Sampson	Director	March 31, 2021
/s/Richard A. Primuth Richard A. Primuth	Director	March 31, 2021
/s/Steven C. Webster Steven C. Webster	Director	March 31, 2021
/s/Michael R. Zapata Michael R. Zapata	Director	March 31, 2021

Exhibit 4.1

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934
(AS UPDATED, MARCH 29, 2021)**

Communications Systems, Inc. ("CSI," "we," "our," or "us") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock.

DESCRIPTION OF CAPITAL STOCK

The following summary of the general terms and provisions of our capital stock does not purport to be complete and is based upon and qualified by reference to our articles of incorporation and bylaws, which are either filed as exhibits to our Annual Report on Form 10-K or are incorporated by reference to our Annual Report on Form 10-K. We encourage you to read our articles of incorporation, our bylaws and the applicable provisions of the Minnesota Business Corporation Act, or MBCA, for additional information.

Authorized Shares of Capital Stock

The aggregate number of shares of capital stock that the Company has authority to issue is as follows

3,000,000 shares of preferred stock, $1.00 par value

30,000,000 shares of common stock, par value $.05

Preferred Stock

We have no preferred stock outstanding.

Common Stock

Holders of the Company's common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the shareholders and do not have cumulative voting rights. Except as otherwise provided by law, our articles of incorporation or our bylaws, matters will generally be decided by the vote of the holders of a majority of the voting power present in person or represented by proxy. Our bylaws provide that the authorized number of directors will be fixed by the shareholders at each annual meeting and that either the shareholders or the board of directors may increase or decreases the number of directors. Our board of directors is not classified.

Holders of our common stock are entitled to receive dividends declared by our board of directors out of funds legally available for the payment of dividends. In the event of any liquidation, dissolution or winding-up of our affairs, holders of common stock will be entitled to share ratably in our assets that are remaining after payment or provision for payment of all of our debts and obligations.

Holders of common stock have no preemptive, conversion or subscription rights, and there are no redemption provisions applicable to the common stock.

All outstanding shares of our common stock are fully paid and nonassessable.

The transfer agent and registrar for our common stock is Equiniti Trust Company, 1110 Centre Pointe Curve, Suite 101, South St. Paul, Minnesota 55120-4100

Our common stock is currently listed on The NASDAQ Stock Market LLC under the trading symbol "JCS."

Anti-Takeover Effects of Provisions of our Articles of Incorporation, our Bylaws and Minnesota Law

Specific provisions of Minnesota law, our articles of incorporation and our bylaws may be deemed to have an anti-takeover effect.

The Company's Bylaws of the Company establish an advance notice procedure with regard to (i) certain business to be brought before an annual meeting of shareholders of the Company and (ii) the nomination by shareholders of candidates for election as directors.

Properly Brought Business

The Bylaws provide that at the annual meeting only such business may be conducted as is of a nature that is appropriate for consideration at an annual meeting and has been either specified in the notice of the meeting, otherwise properly brought before the meeting by or at the direction of the Board of Directors, or otherwise properly brought before the meeting by a shareholder who has given timely written notice to the Secretary of the Company of the shareholder's intention to bring the business before the meeting. To be timely, the notice must be given by such shareholder to the Secretary of the Company not less than 45 days or more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. Notice relating to the conduct of such business at an annual meeting must contain certain information as described in Section 2.9 of the Company's Bylaws, which are available for inspection by shareholders at the Company's principal executive offices pursuant to Section 302A.441, subd. 4 of the Minnesota Statutes. Nothing in the Bylaws precludes discussion by any shareholder of any business properly brought before the annual meeting in accordance with the Company's Bylaws.

Shareholder Nominations

The Bylaws provide that a notice of proposed shareholder nominations for the election of directors must be timely given in writing to the Secretary of the Company prior to the meeting at which directors are to be elected. To be timely, the notice must be given by the shareholder to the Secretary of the Company not less than 45 days or more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. The notice to the Company from a shareholder who intends to nominate a person at the meeting for election as a director must contain certain information as described in Section 3.7 of the Company's Bylaws, which are available for inspection by shareholders as described above. If the presiding officer of a meeting of shareholders determines that a person was not nominated in accordance with the foregoing procedure, that person will not be eligible for election as a director.

Shareholder Meetings

Under our bylaws, regular meetings of our shareholders may be called only by our board of directors, or by written consent of all the shareholders entitled to vote at the annual meeting. If the Board fails to designate a time for a regular meeting for any consecutive period of 15 months, the board must cause such regular meeting to be called within 90 days of receipt of the written demand of any shareholder owning one percent or more of all voting shares of the corporation

Under our bylaws, special meetings of our shareholders may be called by the Chief Executive Officer, the Chief Financial Officer, any two or more directors, or upon request by shareholders holding ten percent or more of the voting power of the shareholders.

Voting Percentage Approval Required for Designated Action

In addition to any affirmative vote required by law or the Company's Articles of Incorporation, the following actions require the affirmative vote of not less than two thirds of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class:

(a) any sale, lease, mortgage, pledge, transfer, exchange or other disposition of all or substantially all of the property and assets of the corporation to any person;

(b) any reclassification of securities (including any combination of shares or reverse stock split), or recapitalization or reorganization of the corporation, or any merger, consolidation or statutory exchange of shares of the corporation or any subsidiary with any other corporation (other than a merger of a wholly owned subsidiary of the corporation into the corporation or the merger of two or more wholly owned subsidiaries of the corporation;

(c) the adoption of plan or proposal for the liquidation or dissolution of the corporation; and

(d) any agreement, contract or other arrangement or understanding providing for one or more of the foregoing.

In addition to any affirmative vote required by law or the Company's Articles of Incorporation, a Business Combination (as defined in the Articles of Incorporation) requires the affirmative vote of not less than 80% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class. This requirement is not applicable, however, if the particular Business Combination is either (a) approved a majority of the Company's Continuing Directors (as defined in the Articles of Incorporation), or (b) meets specific requirements with respect to price and approval process. Repeal or amendment of this requirement in the Articles of incorporation requires affirmative vote of not less than 80% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock, voting together as a single class.

Provisions of Minnesota Law

The following provisions of the MBCA may have an effect of delaying, deterring or preventing an unsolicited takeover of the Company or make an unsolicited takeover of the Company more difficult.

MBCA Section 302A.553 [**Power to acquire shares]** subd 3, **[limitation on share purchases]** prohibits a publicly held corporation such as CSI from purchasing shares entitled to vote for more than market value from a person that beneficially owns more than 5% of the voting power of the corporation if the shares have been beneficially owned for less than two years unless the purchase or agreement to purchase is approved at a meeting of shareholders by the affirmative vote of the holders of a majority of the voting power of all shares entitled to vote or the corporation makes an offer, of at least equal value per share, to all shareholders for all other shares of that class or series and any other class or series into which they may be converted.

MBCA Section 302A.671 [**Control share acquisitions]** provides that shares of an "issuing public corporation," such as CSI acquired by an "acquiring person" in a "control share acquisition" that exceed the threshold of voting power of any of the three ranges identified below will not have voting rights, unless the issuing public company's shareholders vote to accord these shares the voting rights normally associated with these shares. A "control share acquisition" is an acquisition, directly or indirectly, by an "acquiring person" (as defined in the MBCA) of beneficial ownership of shares of an issuing public corporation that, but for Section 302A.671, would, when added to all other shares of the issuing public corporation beneficially owned by the acquiring person, entitle the acquiring person, immediately after the acquisition, to exercise or direct the exercise of a new range of voting power of the issuing public corporation with any of the following three ranges: (i) at least 20 percent but less than 33-1/3 percent; (ii) at least 33-1/3 percent but less than or equal to 50 percent; and (iii) over 50 percent. The issuing public company also has an option to call for redemption all, but not less than all, shares acquired in the control share acquisition that exceed the threshold of voting power of any of the specified ranges at a price equal to the fair market value of the shares at the time the call is given if (i) the acquiring person fails to deliver the information statement to the issuing public company by the tenth day after the control share acquisition; or (ii) shareholders have voted not to accord voting rights to the shares acquired in the control share acquisition.

MBCA Section 302A.673 [**Business combinations]** prohibits a public Minnesota corporation, such as Electro-Sensors, Inc. from engaging in a business combination with an interested shareholder for a period of four years after the date of the transaction in which the person became an interested shareholder, unless either (i) the business combination or(ii) the acquisition by which the person becomes an interested shareholder is approved in a prescribed manner before the person became an interested shareholder. The term "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested shareholder. An "interested shareholder" is a person who is the beneficial owner, directly or indirectly, of 10% or more of a corporation's voting stock, or who is an affiliate or associate of the corporation, and who, at any time within four years before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the corporation's outstanding voting stock.[1]

If a takeover offer is made for our stock, MBCA Section 302A.675 **[Takeover offer; fair price]** precludes the offeror from acquiring additional shares of stock (including in acquisitions pursuant to mergers, consolidations or statutory share exchanges) within two years following the completion of the takeover offer, unless shareholders selling their shares in the later acquisition are given the opportunity to sell their shares on terms that are substantially the same as those contained in the earlier takeover offer. A "takeover offer" is a tender offer that results in an offeror who owned ten percent or less of a class of our shares acquiring more than ten percent of that class, or that results in the offeror increasing its beneficial ownership of a class of our shares by more than ten percent of the class, if the offeror owned ten percent or more of the class before the takeover offer. Section 302A.675 does not apply if a committee of our board of directors formed in accordance with Section 302A.675 approves the proposed acquisition before any shares are acquired pursuant to the earlier tender offer.

Exhibit 10.12

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is effective as of the 1st day of December 2020 ("Effective Date"), by and between Communications Systems, Inc., a Minnesota corporation (the "Company") and Anita Kumar (the "Employee").

A. The Company desires to hire Employee as detailed below. Employee has thoroughly reviewed and considered the terms of this Employment Agreement, and accepts all terms set forth below.

B. During her employment, Employee will have access to extremely sensitive confidential, proprietary and trade secret information relating to the Company, its employees, and its customers. As a result, Employee's employment with the Company is strictly conditioned on Employee agreeing to the confidentiality provisions and post-employment restrictions in this Agreement. Employee has reviewed, considered, and accepts all such provisions as set forth below.

In consideration of the foregoing, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the Company and Employee, the parties agree as follows:

1. Employment Duties; No Conflict; Contingency. The Company hereby employs Employee and Employee accepts such employment. Employee agrees to perform the duties consistent with her position and other duties as may be requested by the Company from time to time. Employee will perform her duties with a high level of professionalism and integrity. Employment pursuant to this Agreement is subject to all Company policies in effect throughout Employee's employment. During the term of this Agreement, Employee will not render or perform services for any other corporation, firm, entity or person that are inconsistent with the provisions of this Agreement except as expressly permitted by the Company in writing.

2. Employment at Will. Employee's employment with the Company is at-will and continues until terminated by the Company or Employee for any reason. The "Termination Date" shall mean the date of cessation of the Employee's employment with the Company (whether voluntarily or involuntarily) without regard to any notice of termination or pay in lieu of notice of termination. The first ninety (90) days of employment shall be considered a probationary period, which period does not alter the at-will nature of employment.

3. Compensation.

(a) Base Salary. The Company shall pay Employee base salary in the annualized amount of $280,000 ("Base Salary"), less applicable taxes and withholding, payable in accordance with the Company's standard payroll practices.

(b) Employee Bonus Program. Employee shall be eligible for the Company's Employee Bonus Program. Employee's potential bonus shall be up to fifty-five percent (55%) of Employee's Base Salary. Any Bonus payable under this Section 3(b) shall be paid as a lump sum by March 15 ("Bonus Pay Date") of the calendar year following the year for which the Bonus was calculated. The Employee Bonus Program is discretionary based on goals established by the Company's Board of Directors and may be changed from time to time.

(c) Change in Control Benefits. Employee shall be entitled to change in control benefits as set forth in the Communications Systems, Inc. Change in Control Agreement attached as Exhibit A.

(d) Stock Options. Employee will be granted options for 25,000 shares of the Company's common stock subject to vesting and other terms to be provided.

(e) Restricted Stock Units. Employee will be granted 5,000 restricted stock units subject to terms to be provided.

(f) Benefits. Employee shall be entitled to participate in all employee benefit plans or programs offered by the Company to all its employees, subject to the eligibility requirements and terms of such plans or programs, including, as of the Effective Date, cellphone reimbursement, medical, dental, vision, life, and critical illness/accident insurance; the Company 401(k) plan, Employee Stock Purchase Plan, and Health Savings Account. Employee will also receive a vehicle allowance in the amount of $298.07 per pay period ($7,750 annualized), subject to maintaining a valid driver's license.

(g) Separation without cause. If the Company terminates this Agreement without Cause as defined herein prior to December 31, 2021, subject to the requirements herein, Employee will receive a guaranteed separation payment equivalent to 6 months base salary, subject to applicable withholding, over the Company's regular scheduled bi-weekly payroll pay dates ("Severance"). As a condition of receiving this Severance, Employee must (i) comply with all provisions of this Agreement and any other obligations owed to the Company; and (ii) sign the General Release attached as Exhibit B after employment ends and not rescind any portion thereof.

4. Termination. This Agreement may be terminated at any time upon sixty (60) days' written notice by (a) the Company to Employee in person or by certified mail to Employee's address on record at the Company, or (b) Employee to the then-current Chair of the Company Board of Directors in person or by certified mail to the Company.

(a) Upon termination of this Agreement, Employee shall be entitled to receive (i) Base Salary owed through the Termination Date, (ii) reimbursement of reasonable expenses incurred as of the Termination Date. Such amount shall be paid within fourteen (14) days of the Termination Date. Employee acknowledges and agrees that said payments, as applicable, and amounts owed pursuant to the Change in Control Agreement attached as Exhibit A, if any, shall be in full satisfaction of any amount due to Employee by the Company, and Employee shall not be entitled to any further payment, severance, benefits continuation, damages, or any additional compensation whatsoever.

(c) For purposes of this Agreement, "Cause" means: (i) gross negligence or gross neglect of duties; (ii) commission of any felony, or a gross misdemeanor involving moral turpitude that in the reasonable determination of the Board is materially and demonstrably injurious to the Company or that impairs Employee's ability to substantially perform Employee's duties with the Company or a subsidiary; (iii) fraud, disloyalty, dishonesty or willful violation of any law or a willful violation of a Company policy that, after warning, remains a continuing violation, committed in connection with the Employee's employment; (iv) conduct that, in the judgment of the Company's Board, results in damage to the Company's business, property, reputation, or goodwill, including allegations of sexual harassment or discrimination; (v) breach of or inability to perform Employee's obligations under this Agreement other than by reason of disability or death; or (vi) failure to follow a directive of the Company's Board.

5. Proprietary Information. During the course of employment Employee will have access to the Company's proprietary and trade secret information. Maintaining the confidentiality of such information is important to the Company's competitive position in the industry and ultimately to the Company's ability to achieve financial success and provide employment opportunities. Employee will not discuss the business affairs and operations of the Company with anyone outside of the Company except when required in the normal course of business. To the extent Employee has access to proprietary and/or trade secret information, she is responsible for the security of that information. Extreme care must be exercised to insure that such information is safeguarded to protect the Company, its suppliers, clients, and employees.

6. Confidential Information. Employee recognizes and acknowledges that Employee will have access to certain information of the Company and that such information is confidential and constitutes valuable, special and unique property of the Company. The Employee shall not at any time, either during or after termination of employment, directly or indirectly disclose to others, use, copy or permit to be copied, except as directed by law or in accordance with Employee's duties for or on behalf of the Company, its successors, assigns or nominees, any Confidential Information of the Company (regardless of whether developed by the Employee), without the prior written consent of the Company. The term "Confidential Information" means any secret or non-public information or know-how relating to the Company and its business, and shall include but not be limited to information relating to the Company's plans, customers, costs, prices, personnel, business relationships, uses and applications of products and services, results of investigations, studies owned or used by the Company, and all products, processes, compositions, computer programs, and servicing, marketing or operational methods and techniques at any time used, developed, investigated, made or sold by the Company, before or during the term of this Agreement, that are not readily available to the public or that are maintained as confidential by the Company. Employee shall maintain in confidence any Confidential Information of third parties, received as a result of the Employee's employment, in accordance with the Company's obligations to such third parties and the policies established by the Company.

Consistent with state and federal law, nothing in this Agreement (a) is intended to limit Employee's right to discuss the terms, wages, and working conditions of her employment; or (b) prohibits Employee from reporting possible violations of law to a government agency or attorney, including information about trade secrets in a document filed in a lawsuit if the disclosure is made in confidence, good faith, solely for the purpose of reporting or investigating a suspected violation of law and is done only as permitted by law.

7. Non-Solicitation, Non-Interference and Non-Competition. As a result of employment with the Company, Employee will acquire considerable knowledge about, and expertise in, certain areas of the Company's business. Employee will also gain knowledge of, and have contact with, customers and suppliers of the Company. Employee acknowledges that she may be able to utilize such knowledge and expertise following termination of service with the Company, to the serious detriment of the Company if she solicits business from customers of the Company or interferes with the Company's relationships with its customers, business partners or employees. Accordingly, she agrees that:

(a) Non-Solicitation, Non-Interference with Customers. During employment and for one (1) year after termination of employment, Employee will not directly or indirectly (i) solicit any customer or business partner of the Company, (ii) take any action intended to, or that has the effect of, interfering with the Company's relationship with any customer or business partner or otherwise resulting in a customer or business partner reducing or ceasing their business relationship with the Company; or (iii) provide, to any customer with whom Employee had contact during employment or about whom Employee had access to Confidential Information, any products or services that are competitive with those that were offered by the Company during Employee's employment.

(b) Non-Solicitation of Employees. During employment and for one (1) year after termination of employment, Employee will not directly or indirectly approach, solicit, entice, hire or attempt to approach, solicit entice or hire any employee of the Company to leave the employment of the Company.

(c) Non- Competition. During employment and for one (1) year after termination of employment, Employee will not directly or indirectly engage in any business that is the same as or substantially similar to the business in which the Company engages during the term of Employee's employment; provided, however, that this restriction shall apply only to the geographic market of the Company. Employee shall be deemed to engage in a business if she directly or indirectly engages or invests in, owns, manages, operates, controls or participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business that provides products or services that are the same as or substantially similar to the products and/or services provided by the Company during Employee's employment. Provided, however, that Employee may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if two conditions are met: (a) such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934 and (b) Employee does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of one percent of the outstanding capital stock of such enterprise.

(d) Tolling of Restrictive Period. In the event Employee breaches any provision of this Section 7, the applicable restrictive period herein shall be tolled during the time of Employee's breach. Upon cessation of any such breach, the restrictive period shall continue and shall be extended by the time period of the applicable breach.

(e) Presentment to any New Employer. For one year after termination of employment, Employee will give a copy of this Agreement to any subsequent employer prior to Employee's first day of work so that the new employer can evaluate whether Employee's work for that employer may be in violation of this Agreement.

8. Inventions; Works Made for Hire. For purposes of this Agreement, "Inventions" means all ideas, improvements, discoveries, concepts, original works of authorship, modifications, formulations, software programs, product development or ideas (whether patentable or not) relating to the business of the Company that are generated, conceived or reduced to practice by Employee during employment with the Company either alone or in conjunction with others, during or outside of working hours. Any patent application (including provisional applications, international applications, and the like) on which Employee is named as an inventor that is both: (a) filed within one (1) year after termination of employment; and (b) relates to the business of Company; shall be presumed to cover an Invention conceived by Employee during employment with the Company, subject to proof to the contrary by good faith, written and duly collaborated records establishing that such Invention was conceived and made following termination of employment. Employee agrees to document all Inventions in writing and promptly disclose such Inventions to the Company. All original works of authorship made by Employee (solely or jointly with others) within the scope of employment with the Company (or her prior employment) and that are protectable by copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101).

(a) Ownership and Assignment of Inventions. Subject to the limitations of Minnesota Statute §181.78 set forth below, all Inventions are the exclusive property of the Company (whether any Invention was generated, conceived or reduced to practice prior to the execution of this Agreement). Employee hereby assigns and agrees to assign in the future (when any such Inventions are first reduced to practice or first fixed in a tangible medium, as applicable, or are otherwise assignable) to the Company all Employee's right, title and interest in and to any and all Inventions, whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by Employee, either alone or jointly with others, during Employee's employment with the Company. Inventions assigned to the Company or to a third party as directed by the Company are referred to as "Company Inventions." Employee hereby waives and agrees not to assert any proprietary rights in or with respect to a Company Invention. Employee will sign and deliver any documents necessary to fully assign ownership of any Invention to the Company. Employee will, at the Company's expense, provide all assistance reasonably required for the Company to perfect, protect and use rights to Inventions. Employee will maintain appropriate documentation relating to Inventions and sign all documents and do all things the Company deems necessary or desirable to document and record the transfer of Employee's right, title and interest in Inventions to the Company or a third party designated by the Company, and enable the Company to obtain patent protection for Inventions anywhere in the world.

(b) Exclusions. The terms of this Section 8 do not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and that was developed entirely on Employee's own time and that (i) does not relate directly to the business of the Company or to the Company's actual or demonstrably anticipated research or development; or (ii) does not result from any work performed by Employee for the Company.

(c) Continuing Obligations. The obligations of this Section 8 continue beyond the termination of employment with the Company as to Inventions conceived or made by Employee during Employee's employment and are binding upon Employee's assigns, executors, administrators and other legal representatives.

9. Conflict of Interests. The Company expects all employees to conduct business according to the highest ethical standards of conduct. Employee is expected to devote her best efforts to the interests and business of the Company. Business dealings that create, or appear to create, a conflict between the interests of the Company and Employee are prohibited. The Company recognizes the right of employees to engage in activities outside of their employment that are of a private nature and unrelated to the Company's business. However, Employee must disclose any possible conflicts so that the Company may assess and prevent potential conflicts of interest from arising. A potential or actual conflict of interest may occur when an employee is in a position to influence a business decision that may result in personal gain to the employee, a family member, or personal acquaintance. It is not possible to specify every action that might create a conflict of interest. Any question regarding whether an action or proposed course of conduct could create, or appear to create, a conflict of interest should immediately be presented to the Chief Executive Officer or the Human Resources Department for review.

10. Restrictions Reasonable. Employee acknowledges that the restrictions in this Agreement are reasonable under the circumstances. Employee hereby waives all defenses to the enforcement thereof by the Company. If any provision of this Agreement is deemed void or invalid by a court, the remaining provisions shall remain in full force and effect and Employee agrees that the court has the power to replace such void or invalid provisions with such other enforceable and valid provisions as are as close as possible to the original in form and effect.

11. Section 409A Compliance. The parties intend that the benefits and rights described in this Agreement comply with Section 409A of the Internal Revenue Code and the Treasury Regulations and other guidance promulgated or issued thereunder ("Section 409A") to the extent that the requirements of Section 409A are applicable hereto, and the provisions of this Agreement will be construed in a manner consistent with that intention. If Employee or the Company believes at any time that any such benefit or right subject to Section 409A does not so comply, it will promptly advise the other and will negotiate reasonably and in good faith to amend the terms of such benefits and rights such that they comply with Section 409A (with the most limited possible economic effect on Employee and on the Company). Each payment under this Agreement is intended to be treated as one of a series of separate payments for purposes of Code Section 409A and Treasury Regulation §1.409A-2(b)(2)(iii) (or any similar or successor provisions).

Notwithstanding the foregoing, the Company does not make any representation that the payments or benefits under this Agreement are exempt from, or satisfy, the requirements of Section 409A and the Company shall have no liability or other obligation to indemnify or hold harmless Employee or any beneficiary for any tax, additional tax, interest or penalties if any provision of this Agreement or any action taken with respect thereto is deemed to violate any of the requirements of Section 409A.

12. Severability. Any provision of this Agreement that is prohibited or unenforceable under Minnesota law shall be ineffective to the extent of the prohibition or unenforceability and shall be severed from the balance of this Agreement, without affecting the remaining provisions of this Agreement.

13. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

14. Entire Agreement. This Agreement and the Exhibit A hereto constitute the entire agreement between Employee and the Company with respect to the subject matter of this Agreement and supersede all previous understandings, communications, representations and agreements, whether verbal or written, with respect to the subject matter hereof. This Agreement may not be modified except by subsequent agreement in writing signed by the Company and Employee.

15. Post-Employment Cooperation. Employee agrees to cooperate and assist the Company in the handling or investigation of any administrative charges, government inquires, claims, threats or lawsuits involving the Company that relate to matters that arose while the Employee was an employee of the Company. The Company will reimburse Employee for out-of-pocket expenses incurred in connection with such cooperation.

16. Notice. Unless otherwise provided herein, any notice required or given under the terms of this Agreement shall be in writing and delivered personally, or sent by registered or certified mail, return receipt requested, postage prepaid, or sent by nationally recognized overnight carrier, postage prepaid, or sent by facsimile transmission to the Company at the Company's principal office and facsimile number in Minnetonka, Minnesota, or to Employee at the address set forth below. Notice shall be deemed given (a) when delivered if personally delivered; (b) three business days after having been placed in the mail, if delivered by registered or certified mail; (c) the business day after having been placed with a nationally recognized overnight carrier, if delivered by nationally recognized overnight carrier, and (d) the business day after transmittal when transmitted with electronic confirmation of receipt, if transmitted by facsimile. Until changed by notice pursuant to this Section 16, the following shall be the address and facsimile number to which notices shall be sent:

If to the Company, to:	If to Employee, to:
Attn: Group President and CFO Communication Systems, Inc. 10900 Red Circle Drive Minnetonka, MN 55343 Fax: (952) 946-1835	Anita Kumar Attn: Anita Kumar 6305 Loch Moor Dr Edina, MN 55439

17. Governing Law; Breach. This Agreement shall be governed by and construed in accordance with the laws of Minnesota, without reference to conflicts of laws. In the event either party is deemed by a court of appropriate jurisdiction to have breached this Agreement, the nonbreaching party shall be entitled to recover all costs, expenses and attorney's fees incurred in enforcing the terms of this Agreement.

18. Survival. The provisions of Sections 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 17, 18 and 19 survive termination of this Agreement (and, for the avoidance of doubt, any termination of Employee's employment with the Company).

19. Termination of Prior Agreements. By signing below, Employee acknowledges and agree that: (b) all prior employment or similar agreements (whether written or verbal) between Employee and Transition Networks/CSI (collectively, the "Prior Agreements"), together with all of Employee's rights under the Prior Agreements, are hereby terminated as of the date hereof; (c) any notice that may be required in connection with the termination of the Prior Agreements is hereby waived; (d) notwithstanding the termination of the Prior Agreements or any other provision of this Agreement, the provisions of the Prior Agreements that impose confidentiality, non-disclosure, non-solicitation, non-competition and other similar obligations on Employee (the "Existing Restrictive Covenants") shall continue in full force and effect in accordance with their respective terms and Employee agrees to strictly abide by such provisions; and (e) the other provisions of the Prior Agreements shall continue in effect to the extent necessary to permit the Company or its successors or assigns to enforce the Existing Restrictive Covenants.

[Signature page follows]

Accordingly, this Employment Agreement is effective as of the Effective Date.

Communications Systems, Inc.

By: /s/ Roger H.D. Lacey		/s/ Anita Kumar
Its: Executive Chairman		Anita Kumar

EXHIBIT A

COMMUNICATIONS SYSTEMS, INC.
CHANGE OF CONTROL AGREEMENT

This CHANGE IN CONTROL Agreement is adopted this ___8th_ day of December 2020 (the "Effective Date") by and between COMMUNICATIONS SYSTEMS INC., a Minnesota corporation located in Minnetonka, Minnesota (the "Company"), and Anita Kumar (the "Executive"), an executive of the Company or one of its subsidiaries.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company to retain the Executive's services and to reinforce and encourage the continued attention and dedication of the Executive to his or her assigned duties, without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company.

The Company and the Executive agree as provided herein.

Article 1
Definitions

Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1 "A**greement**" means this Communications Systems Inc. Change in Control Agreement, as it may be amended from time to time.

1.2 "**Annual Compensatio**n" means the Executive's average compensation paid by the Company which was includible in the Executive's gross income during the most recent two taxable years ending before the date of the Change in Control. The definition includes amounts includible in compensation, prior to any reduction for a salary contribution to a plan described in Section 125 of the Code or qualified under Section 401(k) of the Code, as well as any compensation included in the Executive's compensation within the meaning of Section 280G of the Code.

1.3 "**Cause**" means

(a) Gross negligence or gross neglect of duties; or

(b) Commission of a felony or of a gross misdemeanor involving moral turpitude which in the reasonable determination of the Board is materially and demonstrably injurious to the Company or which impairs the Executive's ability to perform substantially the Executive's duties with the Company or a Subsidiary; or

(c) Fraud, disloyalty, dishonesty or willful violation of any law or a willful violation of a material Company or Subsidiary policy which, after warning, remains a continuing violation, committed in connection with the Executive's employment.

1.4 "**Change in Control**" shall occur on the earliest date that

(a) A "person" or "group" acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company;

(b) any person or group acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the stock of the Company;

(c) a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date that such appointments or elections are made; or

(d) any person or group acquires (or has acquired) during the twelve (12) month period ending on the date of the most recent acquisition by such person or group, assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

(e) for the purposes of this Section 1.4, "person" or "group" does not include The Communications Systems, Inc. Employee Stock Ownership Plan and Trust.

1.5 "**Code**" means the Internal Revenue Code of 1986, as amended.

1.6 "**Disability**" means the Executive's suffering a sickness, accident or injury which has been determined by the insurance carrier of any individual or group disability insurance policy covering the Executive, or by the Social Security Administration, to be a disability rendering the Executive totally and permanently disabled. The Executive must submit proof to the Plan Administrator of the insurance carrier's or Social Security Administration's determination upon the request of the Plan Administrator.

1.7 "**Good Reason**" means the existence of any of the following without the Executive's written consent:

(a) A material diminution by the Company in the Executive's annual base salary.

(b) A material diminution in the Executive's authority, duties or responsibilities as in effect in the three (3) month period immediately preceding a Change in Control.

(c) A material diminution in the authority, duties or responsibilities as in effect in the three (3) month period immediately preceding a Change in Control, of the person to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the Company's Board, if the Executive otherwise reported directly to the Company's Board;

(d) A material diminution in the budget over which the Executive retains authority as in effect in the three (3) month period immediately preceding a Change in Control;

(e) the Company requiring the Executive to be based more than thirty (30) miles from where the Executive's office is located immediately prior to a Change in Control, except for required travel on the Company's business, and then only to the extent substantially consistent with the business travel obligations which the Executive undertook on behalf of the Company during the 90-day period ending on the date of the Change in Control (without regard to travel related to or in anticipation of the Change in Control); or

(f) any other action or inaction that constitutes a material breach by the Company of this Agreement.

The Executive will have Good Reason to terminate employment only if within ninety (90) days following the Executive's actual knowledge of the event which the Executive determines constitutes Good Reason, the Executive notifies the Company in writing that the Executive has determined a Good Reason exists and specifies the event creating Good Reason; following receipt of the notice, the Company fails to remedy the event within thirty (30) days; and the Executive's resignation for Good Reason is effective within ninety (90) days following the Company's period for remedy. If such conditions are not met, the Executive will not have a Good Reason to terminated employment.

1.8 "**Subsidiary**" means any entity that, along with the Company, would be treated as a single employer under Sections 414(b) and (c) of the Code.

1.9 "**Successor**" means any entity that assumes the rights and the obligations of the Company by merger, acquisition, or other valid legal succession.

1.10 "**Termination Date**" shall mean the date of the Executive's Termination of Employment.

1.11 "**Termination of Employment**" shall mean Executive's separation from service with the Company or one of its Subsidiaries.

Article 2
Change in Control Benefits

2.1 **Change in Control Benefit**. Subject to the terms and conditions of this Agreement, if within twenty-four (24) months following a Change in Control of the Company, the Executive shall be subject to an involuntary Termination of Employment by the Company other than for Cause, death, disability or retirement, or Executive shall initiate a voluntary Termination of Employment for Good Reason, the Company shall pay to the Executive the benefit specified in this Section 2.1. If a Change in Control as defined in the Agreement occurs, this Agreement shall expire on the second anniversary of such Change in Control; provided, however, that any benefits provided under this Section 2.1 shall continue in effect until fully paid or satisfied.

2.1.1 **Amount of Benefit**. The benefit under this Section 2.1 is one and one half (1.5) times the Executive's Annual Compensation at the date of the Change of Control.

2.1.2 **Payment of Benefit**. The Company shall pay the benefit to the Executive in a lump sum seventy-five (75) days following the Termination Date provided that, prior to such date the Executive has executed a release of all claims against the Company, its officers and Directors.

2.1.3 **Insurance Benefits**. If a benefit is payable under Section 2.1, then for a period of twelve (12) months following the Termination Date the Executive shall receive, in addition to the benefit provided in Section 2.1.1 of this Agreement the following benefits substantially in the form and expense to the Executive as received by the Executive on the Termination Date: (a) medical and dental insurance; and (b) life insurance. The provision of medical and dental insurance and the provision of life insurance benefits pursuant to this Section 2.1.3 shall, however, be subject to the following limitations: (i) the benefits provided during Executive's taxable year may not affect the benefits to be provided to Executive in any other taxable year, (ii) reimbursements or payments must be made on or before the last day of Executive's taxable year following the taxable year in which the expense being paid or reimbursed was incurred, and (iii) the right to continued coverage is not subject to liquidation or exchange for another benefit.

It is understood and agreed that any rights and privileges of the Executive provided by the Consolidated Omnibus Budget Reconciliation Act of 1986 "(COBRA"), amending the Employee Retirement Income Security Act, the Internal Revenue Code and the Public Health Services Act, as amended, shall begin immediately following the Termination Date.

2.2 **Excess Parachute Payment**. Notwithstanding anything to the contrary in this Agreement, the payments made to the Executive under this Section 2 shall be one dollar ($1.00) less than the amount which would cause the payments to the Executive (including payments to the Executive which are not included in this Agreement) to be subject to the excise tax imposed by Section 4999 of the Code. Any reductions in payments under this section will come first from payments under Section 2.1.1 and then from payments under Section 2.1.3

2.3 **Withholding & Payroll Taxes.** To the extent required by law, the Company shall withhold from other amounts owed to the Executive or require the Executive to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements on any payments made to the Executive under this Agreement. Determinations by the Company as to withholding shall be binding on the Executive.

Article 3
Miscellaneous

3.1 **Confidential Information**. The Executive recognizes and acknowledges that the Executive will have access to certain information of the Company and that such information is confidential and constitutes valuable, special and unique property of the Company. The Executive shall not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, except as directed by law or in pursuance of the Executive's duties for or on behalf of the Company, its Successors, assigns or nominees, any Confidential Information of the Company (regardless of whether developed by the Executive), without the prior written consent of the Company. The term "Confidential Information" with respect to any person means any secret or confidential information or know-how and shall include, but shall not be limited to, the plans, customers, costs, prices, uses, and applications of products and services, results of investigations, studies owned or used by such person, and all products, processes, compositions, computer programs, and servicing, marketing or operational methods and techniques at any time used, developed, investigated, made or sold by such person, before or during the term of this Agreement, that are not readily available to the public or that are maintained as confidential by such person. The Executive shall maintain in confidence any Confidential Information of third parties received as a result of the Executive's employment with the Company in accordance with the Company's obligations to such third parties and the policies established by the Company.

3.2 **No Competition**. If within the twenty-four (24) months following a Change in Control of the Company, the Executive shall have an involuntary Termination of Employment by the Company other than for Cause, death, disability or retirement, or shall have a voluntary Termination of Employment for Good Reason, then and for a period of one (1) year immediately following the Termination Date, the Executive shall not directly or indirectly engage in any business in which the Company directly or indirectly engages during the term of the Agreement; provided, however, that this restriction shall apply only to the geographic market of the Company. The Executive shall be deemed to engage in a business if the Executive directly or indirectly, engages or invests in, owns, manages, operates, controls or participates in the ownership, management, operation or control of, is employed by, associated or in any manner connected with, or renders services or advice to, any business in which the Company directly or indirectly engages, provided, however, that the Executive may invest in the securities of any enterprise (but without otherwise participating in the activities of such enterprise) if two conditions are met: (a) such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934 and (b) the Executive does not beneficially own (as defined Rule 13d-3 promulgated under the Securities Exchange Act of 1934) in excess of one percent of the outstanding capital stock of such enterprise. In the event the Executive is eligible for and receives a payment under this Agreement, for the twelve (12) months after termination of employment, the Executive will not, directly or indirectly, solicit, induce or attempt to solicit or induce any of the Company's employees or independent contractors for the purpose of hiring them to work for the Executive or another individual, entity or employer, or for the purpose of inducing them to leave their employment with the Company, except with the Company's written consent. In the event the Executive violates this Section 3.2 or Section 3.1, any and all rights of the Executive under this Agreement shall terminate and no further payment shall be due the Executive, which shall be in addition to, and not in lieu of, any other rights or remedies of the Company under this Agreement.

3.3 **Termination of Agreement Prior to Change of Control**. At any time after the Effective Date and prior to a Change of Control, the Board of Directors of the Company may amend or terminate this Agreement: provided that no such amendment or termination shall be effective until at least sixty (60) days following written notification of Executive of such termination or amendment of this Agreement. Further, this Agreement shall automatically terminate if, prior to a Change of Control, Company terminates Executive, whether with or without Cause, or Executive voluntarily terminates his or her employment with the Company, whether with or without Good Reason.

3.4 **Delivery of Documents Upon Termination of Employment**. The Executive shall deliver to the Company or its designee at the Executive's Termination of Employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, and other documents and all copies thereof, made, composed or received by the Executive, solely or jointly with others, that are in the Executive's possession, custody, or control at such Termination of Employment and that are related in any manner to the past, present, or anticipated business of the Company.

3.5 **Remedies**. The Executive acknowledges that a remedy at law for any breach or attempted breach of the Executive's obligations under Sections 3.1, 3.2 and 3.3 may be inadequate, agrees that the Company may be entitled to specific performance and injunctive and other equitable remedies in case of any such breach or attempted breach and further agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief. The Company shall have the right to offset against amounts to be paid to the Executive pursuant to the terms hereof any amounts owed by the Executive to the Company at the time of payment.

The termination of the Agreement shall not be deemed to be a waiver by the Company of any breach by the Executive of this Agreement or any other obligation owed the Company, and notwithstanding such a termination the Executive shall be liable for all damages attributable to such a breach.

3.6 **Dispute Resolution**. Subject to the Company's right to seek injunctive relief in court as provided in Section 3.4 of this Agreement, any dispute, controversy or claim arising out of or in relation to or connection to this Agreement, including without limitation any dispute as to the construction, validity, interpretation, enforceability or breach of this Agreement, shall be settled by arbitration administered by the American Arbitration Association under its National Rules for the Resolution of Employment Disputes and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

Any such Arbitration will be conducted: (i) by a neutral arbitrator appointed by mutual agreement of the parties; or (ii) failing such agreement, by a neutral arbitrator appointed in accordance with said AAA rules; the Company shall pay the fees and reasonable expenses of the arbitrator; the parties will be permitted reasonable discovery in accordance with the provisions of the Minnesota Rules of Civil Procedure, including the production of relevant documents by the other party, the exchange of witness lists, and a limited number of depositions, including depositions of any expert who will testify at the arbitration; the arbitrator's award will include findings of fact and conclusions of law showing the legal and factual bases for the arbitrator's decision; the arbitrator will have the authority to award to the prevailing party any remedy or relief that a United States District Court or court of the State of Minnesota could order or grant if the Dispute had first been brought in that judicial forum, including costs and attorney's fees; and unless otherwise agreed by the parties, the place of any arbitration proceeding will be Minneapolis, Minnesota.

3.7 **Acknowledgement of Parties**. The Company and the Executive understand and acknowledge that this Agreement means that neither can pursue an action against the other in a court of law regarding any employment dispute, except for claims involving workers' compensation benefits or unemployment benefits, and except as set forth elsewhere in this Agreement, in the event that either party notifies the other of its demand for arbitration under this Agreement. The Company and the Executive understand and agree that this Section 3.5, concerning arbitration, shall not include any controversies or claims related to any agreements or provisions (including provisions in this Agreement) respecting confidentiality, proprietary information, non-competition, non-solicitation, trade secrets, or breaches of fiduciary obligations by the Executive, which shall not be subject to arbitration.

3.8 **Right to Consult Counsel**. Executive has been advised of the Executive's right to consult with an attorney prior to entering into this Agreement.

3.9 **Successors of the Company**. The Company will require any Successor by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. The failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to terminate the Agreement and receive compensation from the Company in the same amount and on the same terms as the Executive would be entitled hereunder if the Executive terminated the Executive's employment for Good Reason. As used in this Agreement, "Company" as hereinbefore defined shall include any Successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 3.8 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

3.10 **Executive's Heirs, etc**. The Executive may not assign the Executive's rights or delegate the Executive's duties or obligations hereunder without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to the Executive hereunder if the Executive had continued to live, all such amounts, unless other provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's designee or, if there be no such designee, to the Executive's estate.

3.11 **Notices**. Any notice or communication required or permitted under the terms of this Agreement shall be in writing and shall be delivered personally, or sent by registered or certified mail, return receipt requested, postage prepaid, or sent by nationally recognized overnight carrier, postage prepaid, or sent by facsimile transmission to the Company at the Company's principal office and facsimile number in Minnetonka, Minnesota, or to the Executive at the address and facsimile number, if any, appearing on the books and records of the Company. Such notice or communication shall be deemed given (a) when delivered if personally delivered; (b) five mailing days after having been placed in the mail, if delivered by registered or certified mail; (c) the business day after having been placed with a nationally recognized overnight carrier, if delivered by nationally recognized overnight carrier, and (d) the business day after transmittal when transmitted with electronic confirmation of receipt, if transmitted by facsimile. Any party may change the address or facsimile number to which notices or communications are to be sent to such party by giving notice of such change in the manner herein provided for giving notice. Until changed by notice, the following shall be the address and facsimile number to which notices shall be sent:

If to the Company, to:

Attn: President and CFO
COMMUNICATIONS SYSTEMS INC.
10900 Red Circle Drive
Minnetonka, MN 55343
Fax: (952) 946-1835

If to the Executive, to:

Anita Kumar

3.12 **Amendment or Waiver**. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board (which shall not include the Executive). No waiver by either party hereto at any time of any breach by the other party hereto of or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement. This Agreement constitutes the entire agreement between the Company and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.

3.13 **Invalid Provisions**. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereby agree that the portion so held invalid, unenforceable or void shall if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof. In this regard, the parties hereto hereby agree that any judicial authority construing this Agreement shall be empowered to sever any portion of the geographic area or any prohibited business activity from the coverage of this Agreement, and to reduce the duration of the non-compete period and to apply the provisions of this Agreement to the remaining portion of the geographic area or the remaining business activities not to be severed by such judicial authority and to the duration of the non-compete period as reduced by judicial determination.

3.14 **Survival of the Executive's Obligations**. The Executive's obligations under this Agreement shall survive regardless of whether the Executive incurs a Termination of Employment, voluntarily or involuntarily, by the Company or the Executive, with or without Cause.

3.15 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

3.16 **Governing Law**. This Agreement and any action or proceeding related to it shall be governed by and construed under the laws of the State of Minnesota.

3.17 **Captions and Gender**. The use of Captions and Section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein. Similarly, the use of the masculine gender with respect to pronouns in this Agreement is for purposes of convenience and includes either sex who may be a signatory.

3.18 **No guarantee of tax treatment**. Nothing herein shall be construed as an entitlement to or guarantee of any particular tax treatment to the Executive. This Agreement is drafted and shall be interpreted to be exempt from Code Section 409A.

IN WITNESS WHEREOF, the Executive and a duly authorized representative of the Company have signed this Agreement.

EXECUTIVE:		COMPANY:
/s/ Anita Kumar		COMMUNICATIONS SYSTEMS INC.
	By:	/s/ Roger H.D. Lacey
	Its:	CEO and Executive Chairman

EXHIBIT B

GENERAL RELEASE OF CLAIMS

(**Signed After Employment Ends**)

This General Release is provided pursuant to and in accordance with the terms of the Employment Agreement dated the 1st day of December, 2020 between Communication Systems Inc. (the "Company") and Anita Kumar ("Employee").

1. Release of Claims. In consideration of the Severance and other valuable consideration described in the Employment Agreement and herein, the Employee, on behalf of herself and her heirs, successors and assigns, hereby releases, agrees not to sue, and forever discharges Communications Systems Inc., any affiliated entities, and their respective present and former shareholders, members, partners, officers, directors, governors, managers, employees, representatives, consultants, insurers, agents, and the successors and assigns of each, in their individual and official capacities (collectively, "Released Parties"), of and from all claims, demands, actions, causes of action, administrative claims, liability, damages, punitive and liquidated damages, attorneys' fees, costs and disbursements, individual and/or class action claims, and demands of any kind whatsoever that she has or might have against any of them, known or unknown, in law or equity, contract or tort, however originating or existing, through the time she signs this General Release. This General Release includes all claims the Employee could bring on her own behalf as well as those that could be brought by any other person or organization on her behalf. Employee agrees not to voluntarily become a member of any class or voluntarily participate in any proceeding or case in which a claim against any Released Party arises, in whole or in part, from an event that occurred before she signed this General Release.

Without limiting the generality of the foregoing, this Release includes but is not limited to any claims the Employee may have for wages, bonuses, commissions, penalties, deferred compensation, paid time off, claims arising out of equity agreements, defamation, emotional distress, alleged violation of Title VII of the Civil Rights Act, the Americans with Disabilities Act, the Employment Retirement Income Security Act of 1976, the Age Discrimination in Employment Act as amended, the Family and Medical Leave Act, the Minnesota Human Rights Act, and any claim for discrimination, harassment or retaliation based on protected status. This release does not waive any claims that are not waivable as a matter of law.

The Employee has not filed any charge, complaint, or action of any type against any Released Party, including but not limited to any claims arising at law, in equity or under the jurisdiction of any government agency. If any claim is filed on Employee's behalf, the Severance is in complete satisfaction of any such claim and recovery in connection therewith.

2. Consideration Period. The Employee is advised to review this General Release with an attorney of her choosing. She has twenty-one (21) days from the date she receives this Release to consider whether to sign it.

3. Rescission. Employee has seven (7) days after signing this Agreement to rescind the release as to claims arising under the Age Discrimination in Employment Act and fifteen (15) days after signing this Agreement to rescind the release as to claims arising under the Minnesota Human Rights Act. In order to be effective, the rescission must: (i) be in writing; (ii) delivered to the Company, c/o ______________, 10900 Red Circle Drive, Minnetonka, MN 55343 by hand or by mail within the required period; and (iii) if delivered by mail, the rescission must be postmarked within the statutory period, properly addressed to ______________ as set forth above, and sent by certified mail or via FedEx. This General Release will be effective upon the expiration of the fifteen (15) day period without rescission of any part of this General Release. (the "Effective Date"). If the Employee rescinds any part of the release of claims, at the Company's option she may not receive the Severance described in Section 3(g) of the Employment Agreement.

4. No Other Representations. The Employee has read and understands all provisions of this General Release and provides it knowingly and voluntarily. Employee has not relied on any representations, statements or representations of any type other than the express terms of the Employment Agreement and this General Release. This General Release is the result of negotiation and compromise between the parties and shall not be interpreted against the Company for originally drafting this General Release.

5. Breach. In the event Employee breaches this General Release, she shall be responsible for any and all costs and attorney's fees incurred by the Company in enforcing the terms of this General Release.

I have read, understand and agree to the terms and conditions set forth above, and sign this General Release freely, voluntarily, and with full knowledge and understanding of its meaning.

Date:______________, 2020 ___________________________

____
Anita Kumar

Exhibit 21

SUBSIDIARIES OF COMMUNICATIONS SYSTEMS, INC.

Subsidiaries	Jurisdiction of Incorporation
Austin Taylor Communications, Ltd.	United Kingdom
JDL Technologies, Inc.	Minnesota
Transition Networks, Inc.	Minnesota
Ecessa Corporation	Minnesota
LANart Corporation	Massachusetts
MiLAN Technology Corporation	California
Image Systems Corporation	Minnesota
Transition Networks Europe	United Kingdom
Transition Networks EMEA, Ltd.	United Kingdom
Net2Edge, Ltd.	United Kingdom

All these 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 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-98325, 333-120561, 333-161376, 333-177890, 333-204379, 333-230157, and 333-231666) of Communications Systems, Inc. and subsidiaries of our report dated March 31, 2021, relating to the consolidated financial statements, which appears on pages 31 to 33 of this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Baker Tilly US, LLP
(formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
March 31, 2021

Exhibit 31.1

Certifications

I, Anita Kumar 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. 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;

    c. 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

    d. 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

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 31, 2021

/s/ Anita Kumar
Anita Kumar
Chief Executive Officer

Exhibit 31.2

Certifications

I, Mark D. Fandrich 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. 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;

    c. 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

    d. 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

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 31, 2021

/s/ Mark D. Fandrich
Mark D. Fandrich
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, 2020 (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/ Anita Kumar
	Anita Kumar
Date: March 31, 2021	Chief Executive Officer
	/s/ Mark D. Fandrich
	Mark D. Fandrich
Date: March 31, 2021	Group Business President and Chief Financial Officer

Exhibit 99.1

FOR IMMEDIATE RELEASE

COMMUNICATIONS SYSTEMS, INC. REPORTS 2020 FOURTH QUARTER AND YEAR-END FINANCIAL RESULTS

Company Also Updates Shareholders on Progress Towards Completing its Previously Announced Merger with Pineapple Energy

Minnetonka, MN – March 30, 2021 – Communications Systems, Inc. (NASDAQ: JCS) ("CSI" or the "Company") an IoT intelligent edge products and services company, today announced financial results for the fourth quarter and full year ("FY") ended December 31, 2020.

Q4 2020 Financial Highlights vs Q4 2019

- Q4 2020 consolidated sales from continuing operations decreased by 24% to $11.7 million compared to $15.4 million in Q4 2019, due to lower sales from the Electronics & Software segment compared to Q4 2019 when this segment realized $4.2 million in revenues from a single intelligent transportation project and the continuing impact of project delays driven by COVID-19, partially offset by the increased revenues in the Services & Support segment.

- Q4 2020 consolidated operating loss from continuing operations was $133,000, compared to Q4 2019 consolidated operating income from continuing operations of $1.2 million:

  - Electronics & Software operating income was $1.0 million versus $2.8 million in Q4 2019;

  - Services & Support operating loss was $60,000 versus an operating loss of $245,000 in Q4 2019; and

  - Other corporate costs, including indirect costs related to discontinued operations, were $1.1 million versus $1.4 million in Q4 2019.

- Q4 2020 discontinued operations income was $171,000 compared to income of $505,000 in Q4 2019.

- Q4 2020 consolidated net loss was $3,000, or $0.00 per diluted share, compared to a net income of $1.7 million, or $0.18 per diluted share in Q4 2019.

FY 2020 Financial Highlights vs FY 2019

- FY 2020 consolidated sales from continuing operations decreased by 16.4% to $42.6 million compared to $50.9 million in FY 2019.

- FY 2020 consolidated operating loss from continuing operations was $2.7 million compared to income of $9,000 in FY 2019.

- Other corporate costs, including indirect costs related to discontinued operations, were $4.0 million in both FY 2020 and in FY 2019.

- FY 2020 discontinued operations income was $1.6 million compared to income of $6.2 million in FY 2019.

- FY 2020 consolidated net loss was $172,000, or ($0.02) per diluted share, compared to a FY 2019 net income of $6.5 million, or $0.69 per diluted share.

- Cash, cash equivalents, and liquid investments totaled $21.5 million, working capital was $28.3 million and stockholders' equity was $47.5 million as of December 31, 2020.

Anita Kumar, CEO of CSI commented, “Our full year 2020 financial results were negatively affected by the COVID-19 pandemic. Our commercial customers, both in the U.S and internationally, were substantially affected by reduced growth in building lighting and automation, security and surveillance and intelligent transportation applications, which resulted in delays and declines in project spending. This decline was partially offset by strong demand from the U.S. Federal government. While the duration and the global economic effect of this pandemic is outside of our control, during the year we took several steps to adjust to this challenging new operating and economic environment. We implemented cost-reduction measures, which partially offset lower revenue and resulted in positive operating income and net income for the second half of 2020.”

Dr. Kumar added, “Both our business segments remain fundamentally strong due to the investments we made in new technologies. These investments are aimed at developing easy-to-use / easy-to-integrate software and services that address demand from critical infrastructure initiatives, including security and surveillance, intelligent transportation, smart buildings, and smart cities. With the acquisition of Ecessa, a designer and distributor of SD-WAN for businesses, we expanded our services and support segment broadening our portfolio of products and services. Also, the minority investments we have made in Quortus, Kogniz and Spyrus expanded our ability to explore providing Private LTE, Artificial Intelligence and secure network access solutions to our customers.”

Progress Made Towards Completing its Previously Announced Merger with Pineapple Energy

Of note, on March 2, 2021, CSI announced the signing of a definitive merger agreement with privately held Pineapple Energy, LLC (“Pineapple”), a growing U.S. operator and consolidator of residential solar, battery storage, and grid services solutions. Upon obtaining shareholder approval for the merger and closing, CSI will commence doing business as Pineapple Energy, with a business model focused on the rapidly growing home solar industry.

Commenting on the progress made towards completing the merger with Pineapple, Roger Lacey, Executive Chairman of CSI, commented, “As per the terms of the merger, we intend to divest all of our existing business lines, real estate holdings and other investments, and distribute the proceeds to CSI Shareholders. Currently, we are in discussions with potential buyers for both our operating business segments (Electronics & Software and Services & Support). These businesses could offer potential buyers substantial long-term growth opportunities by unlocking additional synergies, and the ability to expand into adjacent markets, add scale, and broaden their existing product lines. We will provide additional details once we enter into definitive agreements.”

As previously announced, we expect to distribute most of the proceeds from any pre-merger divestitures in the form of a cash dividend to existing CSI shareholders prior to, or concurrent with the effective date of the merger.

The definitive merger agreement with Pineapple, which was approved by CSI’s Board of Directors, is subject to approval by CSI’s shareholders, which we currently expect to occur in June 2021, with the merger expected to close before the end of the second quarter of 2021. For more information about the CSI-Pineapple merger visit https://www.commsystems.com/investor-resources.

FY 2020 Segment Financial Overview

Electronics & Software

(in 000s)	Three Months Ended December 31			Twelve Months Ended December 31		
	2020	2019	Change %	2020	2019	Change %
Sales	$ 8,917	$ 14,745	-39.5%	$ 34,496	$ 47,007	-26.6%
Gross profit	4,056	7,024	-42.3%	14,890	21,394	-30.4%
Operating income	997	2,786	-64.2%	1,015	4,040	-74.9%

Electronics & Software Q4 2020 sales and operating income decreases were driven by the $4.2 million 2019 New York City Department of Transportation ("NYCDOT") project related revenue which did not reoccur in 2020, and the impact of project delays driven by the COVID-19 pandemic.

Electronics & Software sales decreased 27% to $34,496,000 in FY 2020 compared to $47,007,000 in FY 2019. Sales in North America decreased by 25% or $10,050,000 in FY 2020 compared to 2019 primarily due to delayed project spending by customers due to the effect of the COVID-19 pandemic, $7,050,000 of sales on the NYCDOT IoT project recorded in FY 2019 that did not reoccur in FY 2020, and a decline in sales to a major Canadian telecommunications customer, partially offset by strong sales to Federal agencies. International sales decreased by $2,461,000, or 34%, primarily due to the economic effects of the COVID-19 pandemic and an overall drop in demand for traditional products.

Sales of Intelligent Edge Solutions ("IES") products decreased 34% or $6,280,000 due to the $7,050,000 of deliveries in FY 2019 for the NYCDOT project that did not reoccur in FY 2020, partially offset by higher sales of security and surveillance products and sales to Federal agencies. Excluding the prior year NYCDOT IoT project, sales of IES products increased by $770,000 or 7%. Traditional product sales decreased 22% or $6,231,000, due mainly to the overall economic effects of the COVID-19 pandemic and a decline in media converter orders from major telecommunications customers.

Gross profit decreased by 30% to $14,890,000 in FY 2020 compared to $21,394,000 in FY 2019. Gross margin as a percentage of sales decreased to 43% in 2020 from 46% in 2019 primarily due to the volume and favorable margin impacts from the prior year NYCDOT smart city IoT project that did not reoccur in the current year and increased sales of certain IES products to Federal agencies at lower margins, partially offset by lower inventory write-downs year over year.

Selling, general and administrative expenses decreased by 20% to $13,875,000, or 40% of sales, in FY 2020 from $17,354,000, or 37% of sales in FY 2019 due to reduced travel, marketing and personnel expenses, in part due to steps taken by management in response to the COVID-19 pandemic.

Electronics & Software had operating income of $1,015,000 in FY 2020 compared to operating income of $4,040,000 in FY 2019, primarily due to lower sales and gross margin.

Services & Support

(in 000s)	Three Months Ended December 31			Twelve Months Ended December 31		
	2020	**2019**	**Change %**	**2020**	**2019**	**Change %**
Sales	$ 2,896	$ 799	+262.5%	$ 8,777	$ 4,741	+85.1%
Gross profit	890	184	+383.7%	2,979	1,482	+101.0%
Operating income (loss)	(60)	(245)	+75.5%	310	(3)	NA

Services & Support sales increase in Q4 2020 was driven by education sector projects restarted in 2020 and the addition of revenues from Ecessa and IVDesk, which were both acquired in 2020.

Services & Support sales increased by 85% to $8,777,000 in FY 2020 compared to $4,741,000 in FY 2019. Revenues from the education sector increased by $2,557,000 or 133% in FY 2020 primarily due to the commencement of projects that had been previously delayed due to funding issues while the prior year had less project revenue in this sector. Projects for this education customer commenced at the end of the second quarter of FY 2020. Revenue from small to medium businesses ("SMBs"), which are primarily healthcare, financial and commercial clients, increased by 82% or $1,622,000 due to the acquisition of Ecessa on May 14, 2020 and the acquisition of the assets of IVDesk on November 3, 2020. Project and product revenue increased by $2,878,000 or 128% during FY 2020 as compared to FY 2019 due primarily to the increase in the education sector. Services and support revenue increased by $1,158,000 or 46% as compared to the prior year due to the Company's acquisition of Ecessa, which has service and support revenue on its SD-WAN products. Overall, Ecessa contributed $1,260,000 and IVDesk contributed $401,000 in revenue during the year.

Gross profit increased by 101% to $2,979,000 in FY 2020 compared to $1,482,000 in FY 2019. Gross margin as a percentage of sales increased to 34% in 2020 compared to 31% in 2019 due to the increase in project revenue in the education sector, primarily within the second half of the year.

Selling, general and administrative expenses increased by 80% in FY 2020 to $2,669,000, or 30% of sales, compared to $1,485,000 in FY 2019, or 31% of sales due to the May 2020 acquisition of Ecessa and the inclusion of its general and administrative costs that are not included in the prior year.

Operating income was $310,000 in FY 2020 compared to an operating loss of $3,000 in FY 2019, primarily due to increased education revenue.

Form 10-K

For further information, please see the Company's Form 10-K, which will be filed on or before March 31, 2021.

About Communications Systems, Inc.

Communications Systems, Inc., which has operated as an IoT intelligent edge products and services company, with its planned merger with Pineapple Energy will be positioned to acquire and grow leading local and regional solar, storage, and energy services companies nationwide. The vision is to power the energy transition through grass-roots growth of solar electricity paired with battery storage on consumers' homes.

Forward Looking Statements

This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future financial performance, future growth and future acquisitions. These statements are based on Communications Systems' current expectations or beliefs and are subject to uncertainty and changes in circumstances. There can be no guarantee that the proposed CSI- Pineapple Energy transactions and other transactions referred to in this press release will be completed, or that they will be completed as currently proposed, or at any particular time. Actual results may vary materially from those expressed or implied by the statements here due to changes in economic, business, competitive or regulatory factors, and other risks and uncertainties affecting the operation of Communications Systems' business, as well as the business of Pineapple Energy. These risks, uncertainties and contingencies are presented in the Company's Annual Report on Form 10-K and, from time to time, in the Company's other filings with the Securities and Exchange Commission. The information set forth herein should be read considering these risks. Further, investors should keep in mind that the Company's financial results in any period may not be indicative of future results. Communications Systems is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether because of new information, future events, changes in assumptions or otherwise. In addition to these factors, there are a number of specific factors related to this transaction, including:

- The Company's ability to obtain shareholder approval for the CSI-Pineapple Energy merger and related transactions;
- The ability of Pineapple to successfully close its Hawaii Energy Connection (HEC) and E-GEAR acquisitions and integrate these businesses into its operations;
- The ability of the combined company to successfully maintain a Nasdaq Capital Market listing;
- The ability of the combined company to successfully access the capital markets, identify and acquire appropriate acquisition targets and successfully integrate these companies into its operations;
- The Company's ability to successfully sell its existing operating business assets and its real estate assets and distribute these proceeds to its existing shareholder base;
- Conditions to the closing of the merger may not be satisfied or the merger may involve unexpected costs, liabilities or delays;
- The occurrence of any other risks to consummation of the merger, including the risk that the merger will not be consummated within the expected time period or any event, change or other circumstances that could give rise to the termination of the merger agreement;
- Risks that the merger disrupts current CSI plans and operations or that the business or stock price of CSI may suffer as a result of uncertainty surrounding the merger;
- The outcome of any legal proceedings related to the merger; and
- CSI or Pineapple Energy may be adversely affected by other economic, business, or competitive factors.

Contacts:
<u>For Communications Systems, Inc.</u>

Anita Kumar
Chief Executive Officer
+1 (952) 996-1674

Roger H. D. Lacey
Executive Chair
+1 (952) 996-1674

Mark D. Fandrich
Chief Financial Officer
+1 (952) 582-6416
mark.fandrich@commsysinc.com

<u>The Equity Group Inc.</u>
Lena Cati
Vice President
+1 (212) 836-9611
lcati@equityny.com

CSI CONSOLIDATED SUMMARY OF EARNINGS
Selected Income Statement Data

	Unaudited			
	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Sales	$ 11,675,323	$ 15,363,421	$ 42,575,546	$ 50,906,179
Gross profit	4,807,405	7,034,141	17,206,428	22,185,812
Operating income (loss) from continuing operations	(133,437)	1,188,126	(2,697,350)	9,214
Income (loss) from continuing operations before income taxes	(157,569)	1,233,167	(1,775,332)	235,350
Income tax expense (benefit)	16,293	20,388	20,342	(15,269)
Income from discontinued operations	170,727	505,120	1,624,016	6,218,430
Net income (loss)	$ (3,135)	$ 1,717,899	$ (171,658)	$ 6,469,049
Basic net income (loss) per share	$ 0.00	$ 0.19	$ (0.02)	$ 0.70
Diluted net income (loss) per share	$ 0.00	$ 0.18	$ (0.02)	$ 0.69
Cash dividends per share	$ 0.00	$ 0.02	$ 0.04	$ 0.08
Average basic shares outstanding	9,319,011	9,278,593	9,322,672	9,272,259
Average dilutive shares outstanding	9,319,011	9,492,508	9,322,672	9,337,422

Selected Balance Sheet Data

	Unaudited	
	Dec. 31, 2020	Dec. 31, 2019
Total assets	$ 55,556,325	$ 59,150,712
Cash, cash equivalents & liquid investments	21,456,865	24,057,160
Working capital	28,320,602	38,051,766
Property, plant and equipment, net	7,242,072	8,238,089
Long-term liabilities	623,947	408,386
Stockholders’ equity	47,494,727	47,392,282