

COMMUNICATIONS SYSTEMS INC
Form DEF 14A
April 10, 2015

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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Communications Systems, Inc.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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COMMUNICATIONS SYSTEMS, INC.

10900 Red Circle Drive
Minnetonka, Minnesota 55343

NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 21, 2015

Dear Shareholders:

You are cordially invited to attend the 2015 Annual Meeting of Shareholders of Communications Systems, Inc. (CSI or the Company). The meeting will be held at the Company s offices located at 10900 Red Circle Drive, Minnetonka, Minnesota, on Thursday, May 21, 2015 beginning at 10:00 a.m., Central Daylight Time, for the following purposes:

1. To elect six directors to the Board to serve one-year terms until the next Annual Meeting of Shareholders or until their respective successors have been elected and qualified;
2. To ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the year ended December 31, 2015;
3. To cast a non-binding advisory vote approving executive compensation;
4. To approve amendments to the Company s 2011 Executive Incentive Compensation Plan that would, among other changes, increase the total number of authorized shares by 1,000,000 shares to 2,000,000 shares;
5. To approve an amendment to the Company s 1990 Employee Stock Purchase Plan to increase the total number of authorized shares by 100,000 shares to 600,000 shares; and
6. To transact any other business that may properly come before the meeting.

The Board of Directors has fixed the close of business on March 24, 2015 as the record date for determination of shareholders entitled to notice of and to vote at the meeting.

You may attend the meeting and vote in person, or you may vote by proxy. To ensure your representation at the meeting, please complete and submit your proxy, whether or not you expect to attend in person. Shareholders who attend the meeting may revoke their proxies and vote in person if they so desire.

By Order of the Board of Directors,

Curtis A. Sampson, Chairman

Minnetonka, Minnesota

April 10, 2015

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS:

Copies of this Notice, the Proxy Statement following this Notice and the Annual Report to Shareholders are available at www.proxyvote.com

COMMUNICATIONS SYSTEMS, INC.
PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE MEETING

Information Regarding the Annual Meeting

This Proxy Statement is furnished to the shareholders of Communications Systems, Inc. (CSI or the Company) beginning April 10, 2015 in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the Annual Meeting of Shareholders that will be held at the Company s offices at 10900 Red Circle Drive, Minnetonka, Minnesota, on Thursday, May 21, 2015, beginning at 10:00 a.m., Central Daylight Time, or at any adjournment or adjournments thereof.

What is the purpose of the meeting?

At our annual meeting, shareholders will act upon the matters disclosed in the Notice of Annual Meeting of Shareholders that accompanies this Proxy Statement. These include:

Elect six directors;

Ratify the appointment of Deloitte & Touche LLP (Deloitte) as our independent registered public accounting firm for the fiscal year ending December 31, 2015;

Approve the Company s executive compensation;

Approve amendments to the Company s 2011 Executive Incentive Compensation Plan that would, along with other changes, increase the total number of authorized shares by 1,000,000 shares to 2,000,000 shares; and

Approve an increase in the number of shares authorized under the Company s 1990 Employee s Stock Purchase Plan from 500,000 to 600,000 shares.

We will also consider any other business that may properly be presented at the meeting, and management will report on CSI s performance during the last fiscal year and respond to questions from shareholders.

How does the Board recommend that I vote?

The Board of Directors named in this proxy statement recommends a vote:

FOR the election of the six individuals recommended by the Board of Directors.

FOR the ratification of the appointment of Deloitte.

FOR approval of the Company s executive compensation.

FOR approval of amendments to the 2011 Incentive Compensation Plan that would increase the number of shares authorized for issuance under the plan to 2,000,000 shares

FOR approval of the 100,000 share increase in the number of shares authorized for issuance under the 1990 Employee Stock Purchase Plan.

Who is entitled to vote at the meeting?

If you were a shareholder of record at the close of business on March 24, 2015 (the record date), you are entitled to vote at the meeting. As of the record date, 8,660,785 shares of common stock were outstanding and eligible to vote.

What is the difference between a shareholder of record and a street name holder?

If your shares are registered directly in your name, you are the shareholder of record with respect to those shares. If your shares are held in a stock brokerage account or by a bank or other nominee, you are the beneficial owner of those shares, and your shares are held in street name. If you are a street name holder, you will receive a voting instruction card that appears very similar to a proxy card. Please complete that card as directed to ensure your shares are voted at the meeting.

What are the voting rights of the shareholders?

Holders of common stock are entitled to one vote per share. Therefore, a total of 8,660,785 votes are entitled to be cast at the meeting. There is no cumulative voting for the election of directors.

How many shares must be present to hold the meeting?

A quorum is necessary to hold the meeting and conduct business. The presence of shareholders who can direct the voting of at least a majority of the outstanding shares of common stock as of the record date is considered a quorum. A shareholder is counted as present at the meeting if the shareholder is present and votes in person at the meeting or the shareholder has properly submitted a proxy by mail, telephone or Internet.

How do I vote my shares?

If you are a shareholder of record, you may give a proxy to be voted at the meeting either:

electronically, by following the instructions provided in the Notice of Internet Availability of Proxy Materials or proxy card; or

if you received printed proxy materials, you may also vote by mail or telephone as instructed on the proxy card.

If you hold shares beneficially in street name, you may also vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials or, if you received printed proxy materials, you may also vote by mail or telephone by following the instructions provided in the voting instruction card provided to you by your broker, bank, trustee or nominee. The telephone and Internet voting procedures have been set up for your convenience. The procedures have been designed to authenticate your identity, to allow you to give voting instructions, and to confirm that those instructions have been recorded properly. You may also vote in person at the meeting as described in *May I vote my shares in person at the meeting?* below.

What does it mean if I receive more than one Notice of Internet Availability of Proxy Materials, proxy card or voting instruction card?

It means you hold shares of CSI stock in more than one account. To ensure that all of your shares are voted, sign and return each proxy card or voting instruction card or, if you vote by telephone or via the Internet, vote once for each proxy card, voting instruction card or Notice of Internet Availability of Proxy Materials you receive.

May I vote my shares in person at the meeting?

Yes. If you are a shareholder of record, you may vote your shares at the meeting by completing a ballot at the meeting. Even if you currently plan to attend the meeting, however, we recommend that you submit your proxy ahead of time so that your vote will be counted if, for whatever reason, you later decide to not attend the meeting. If you hold your shares in street name, you may vote your shares in person at the

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meeting only if you obtain a signed proxy from your broker, bank, trustee or other nominee giving you the right to vote these shares at the meeting.

What vote is required for the proposals to be approved?

Election of Directors. The six directors that receive the most votes will be elected to serve on the Board of Directors until the 2016 Annual Meeting of Shareholders.

Ratification of the appointment of Deloitte as our independent registered public accounting firm. The affirmative vote of a majority of the shares of common stock represented and entitled to vote on the proposal, if those shares represent more than 25% of the shares outstanding on the record date, is sufficient to approve this proposal.

Advisory vote on executive compensation. The affirmative vote of a majority of the shares of common stock represented and entitled to vote on the proposal, if those shares represent more than 25% of the shares outstanding on the record date, is sufficient to approve this proposal.

Amendment of the Company's 2011 Executive Incentive Compensation Plan. The affirmative vote of a majority of the shares of common stock represented and entitled to vote on the proposal, if those shares represent more than 25% of the shares outstanding on the record date, is sufficient to approve this proposal.

Amendment of the Company's Employee Stock Purchase Plan. The affirmative vote of a majority of the shares of common stock represented and entitled to vote on the proposal, if those shares represent more than 25% of the shares outstanding on the record date, is sufficient to approve this proposal.

How are votes counted?

Shareholders may either vote FOR or WITHHOLD authority to vote on the election of directors. Shareholders may vote FOR, AGAINST or ABSTAIN on proposals No 2, 3, 4 and 5.

If you vote ABSTAIN or WITHHOLD, your shares will be counted as present at the meeting for the purposes of determining a quorum. If you ABSTAIN from voting on a proposal, your abstention has the same effect as a vote against that proposal. If you WITHHOLD authority to vote for one or more of the nominees for director, this will have no effect on the election of any director from whom votes are withheld.

If you hold your shares in street name and do not provide voting instructions to your broker or nominee, your shares will be considered to be broker non-votes and will not be voted on any proposal on which your broker or nominee does not have discretionary authority to vote under the rules of the New York Stock Exchange. Shares that constitute broker non-votes will be present at the meeting for the purpose of determining a quorum, but are not considered entitled to vote on the proposal in question. Your broker or nominee has discretionary authority to vote your shares on the ratification of Deloitte as our independent registered public accounting firm even if your broker or nominee does not receive voting instructions from you, but may not vote your shares on any other matters without instructions from you.

May I change my vote?

Yes. If you are a shareholder of record, you may change your vote and revoke your proxy at any time before it is voted at the meeting in any of the following ways:

by sending a written notice of revocation to our Corporate Secretary;

by submitting another properly signed proxy card at a later date to our Corporate Secretary;

by submitting another proxy by telephone or via the Internet at a later date; or

by voting in person at the meeting.

If you are a street name holder, please consult your broker, bank, trustee or nominee for instructions on how to change your vote.

Who pays for the cost of proxy preparation and solicitation?

We pay for the cost of proxy preparation and solicitation, including the charges and expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners of shares held in street name.

We are soliciting proxies primarily by mail. In addition, proxies may be solicited by telephone or facsimile, or personally by our directors, officers and regular employees. These individuals will receive no compensation (other than their regular salaries) for these services.

Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of paper copies?

In accordance with rules of the Securities and Exchange Commission (the "SEC"), we may furnish proxy materials to our shareholders by providing access to these documents on the Internet instead of mailing printed copies. In general, you will not receive printed copies of the materials unless you request them. Instead, we mailed you the Notice of Internet Availability of Proxy Materials (unless you have previously consented to electronic delivery or already requested to receive paper copies), which instructs you as to how you may access and review all of the proxy materials on the Internet. The Notice of Internet Availability of Proxy Materials explains how to submit your proxy over the Internet. If you would like to receive a paper copy or e-mail copy of the proxy materials, please follow the instructions provided in the Notice of Internet Availability of Proxy Materials.

Why do some shareholders receive a notice in the mail regarding the Internet Availability of Proxy Materials instead of a full set of paper copies and some shareholders receive both a Notice of Internet Availability and a full set of paper copies?

In accordance with rules adopted by the Securities and Exchange Commission (the "SEC"), we may furnish proxy materials to our shareholders by providing access to these documents on the Internet instead of mailing printed copies. This year, we have mailed the Notice of Internet Availability of Proxy Materials to all shareholders (unless a shareholder has previously consented to electronic delivery). The Notice of Internet Availability of Proxy Materials explains how to obtain proxy materials and to submit your proxy over the Internet.

If you have not received a paper copy or e-mail copy of the proxy materials, and would like to receive one, please follow the instructions provided in the Notice of Internet Availability of Proxy Materials.

How can a shareholder present a proposal at the 2016 Annual Meeting?

In order for a shareholder proposal to be considered for inclusion in our Proxy Statement for the 2016 Annual Meeting, the written proposal must be received at our principal executive offices by the close of business on December 16, 2015. The proposal must comply with SEC regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials.

If a shareholder wishes to present a proposal at the 2016 Annual Meeting that would not be included in our Proxy Statement for that meeting, the shareholder must provide notice to us no later than February 29, 2016. Please contact the Corporate Secretary for a description of the steps to be taken to present such a proposal.

How can a shareholder get a copy of the Company's 2014 Report on Form 10-K?

Our 2014 Annual Report, including our Annual Report on Form 10-K for the year ended December 31, 2014, is available electronically with this Proxy Statement. The 2014 Annual Report, including our Form 10-K is also available in the Investor Relations page of our website <http://commsystems.com>. Upon request, we will provide you copies of any exhibits to the Form 10-K upon payment of a fee covering our reasonable expenses in furnishing the exhibits. You can request exhibits to the Form 10-K by writing to the Corporate Secretary, Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

What if I do not specify a choice for a matter when returning a proxy?

Unless you indicate otherwise, the persons named as proxies on the proxy card will vote your shares

For the election of each nominee to the board of directors set forth in Proposal No. 1;

For the ratification of Deloitte as our independent registered public accounting firm set forth in Proposal No. 2;

For approval of the Company's executive compensation;

For approval of amendments to Company's 2011 Executive Incentive Compensation Plan that would increase the number of shares authorized to be issued under the Plan from 1,000,000 to 2,000,000; and

For approval of the amendment of the Company's Employee's Stock Purchase Plan increasing the number of shares authorized to be issued under the Plan from 500,000 to 600,000; and,

If any other matters come up for a vote at the meeting, the proxy holders will vote the shares they are entitled to vote, according to the recommendations of the board of directors or, if there is no recommendation, at their own discretion.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

PROPOSAL NO. 1

The size and structure of the Board of Directors presently consists of six director positions, each serving a one-year term. The Board of Directors has nominated and recommends that the Company's shareholders elect Luella G. Goldberg, Roger H.D. Lacey, Gerald D. Pint, Richard A. Primuth, Curtis A. Sampson, and Randall D. Sampson, each of whom currently serves as a director. The Board of Directors believes that each nominee will be able to serve as a director. The Board has determined that each nominee, with the exception of Roger H.D. Lacey, is independent.

Each nominee has indicated his or her willingness to serve, if elected, but if any should be unable or unwilling to serve, proxies may be voted for a substitute nominee designated by the Board. The Company did not receive any shareholder nominations for director. Proxies cannot be voted for more than the number of nominees named in this Proxy Statement.

BOARD OF DIRECTORS

The following table sets forth information regarding the director and nominees named above, including information regarding their principal occupations currently and for the preceding five years.

Luella G. Goldberg (78)

LUELLA G. GOLDBERG has been a director of CSI since 1997 and currently serves as Lead Governance Director and as a member of our Audit & Finance Committee. She also is a member of the Board of Overseers of the University of Minnesota's Carlson School of Management (1979 to Present), in addition to currently serving on boards of several other educational and non-profit organizations. Over the past 35 years Ms. Goldberg has served on the boards of a number of corporations, including the following public companies: TCF Financial Corporation (1988 to 2012), Hormel Foods Corporation (1993 to 2009), and the Supervisory Board of ING Group based in Amsterdam, Netherlands (2001 to 2008). She also was a Trustee of the University of Minnesota Foundation from 1975 to 2008, including its Chair from 1996 to 1998, and is currently a Life Trustee of the Foundation. She also served as a trustee of Wellesley College from 1978 to 1996, including Chair of the Board from 1985 to 1993. Along with a number of other honors and awards that have recognized her achievements, in 2001 Ms. Goldberg received the Twin Cities Business Monthly's Lifetime Achievement Award as Outstanding Director. Because of her vast experience serving as a director of a myriad of significant for-profit, educational and philanthropic organizations, Ms. Goldberg brings special expertise in governance, as well as deep experience from a board perspective in addressing many of the wide variety of issues that the Company regularly faces.

Roger H.D. Lacey (64)

ROGER H.D. LACEY has been a director since 2008 and is currently the Company's Vice Chairman and Chief Executive Officer. Mr. Lacey was Senior Vice President of Strategy and Corporate Development at 3M Corporation from 2009 to his retirement in 2013. He was 3M Corporation's Chief Strategy Officer and head of Global Mergers and Acquisitions from 2000 to 2013. Mr. Lacey's career with 3M began in 1975, and from 1989 to 2000 he held various senior positions including serving as Division Vice President of 3M Telecom Division. In addition, Mr. Lacey was a member of the corporate venture capital board for internal and external new venture investments from 2009 to 2013. In addition, he is a Board member of Johnsonville Sausage Corporation, a leading US food company and also a Senior Partner in GCM Capital, a private equity firm. He is a member of the Board of Governors for Opus Business School, University of St. Thomas; a visiting Professor of Strategy and Corporate Development, Huddersfield University; and a founding member of the Innovation Lab at MIT and is a former Vice

Chair of Abbott Northwestern Hospital Foundation. Mr. Lacey brings a unique perspective that combines familiarity with key telecommunications and data markets around the world combined with deep experience in strategic planning and business development.

Gerald D. Pint (75)

GERALD D. PINT has been a director of CSI since 1997. He is currently a member of the Compensation Committee. Since 1993, Mr. Pint has provided telecommunications consulting services and served on the boards of three public companies in addition to CSI: Hector Communications Corporation (2003 to 2006), Norstan, Inc. (1982 to 1997) and Inventronics Ltd. (1994 to 2004). From 1959 to 1993, Mr. Pint was employed by 3M Corporation and held various sales and management positions at 3M business units that were engaged in manufacturing and selling electronic and telecommunications products. In particular, from 1976 to 1982, Mr. Pint served as the Division Vice President of 3M's Telecom Products Division, and from 1982 until his retirement in 1993 he served as Group Vice President of 3M's Electro Telcom Group. Mr. Pint's background in and understanding of production and sales of telecommunications and electronics products, as well as his executive level management experience, derived from a 34-year career at 3M Corporation, provide a valuable perspective in the Board's governance of CSI's telecommunications and data communications related businesses.

Richard A. Primuth (69)

RICHARD A. PRIMUTH was elected as a director in October 2013 and currently serves as Chair of the Compensation Committee and as a member of the Audit & Finance Committee. For over 40 years, Mr. Primuth has served as an attorney with the Minneapolis law firm of Lindquist & Vennum LLP, specializing in business law. He was a partner in this firm from 1977 until December 2011 when he became Of Counsel to the firm. Mr. Primuth's business law practice has been heavily focused on representing publicly-held and private corporations, securities offerings, mergers and acquisitions, and other complex business transactions, and he was the Company's primary outside counsel from 1983 until being elected to the Board. Upon being appointed to the Board, he ceased providing any legal services to the Company. The Board of Directors believes that Mr. Primuth's significant experience in corporate governance, public offerings and other financings, capital markets, SEC compliance and reporting, mergers and acquisitions, spin offs, complex contract negotiations, and other business law areas, as well as his deep understanding of the Company, its history, markets and products, make him a significant resource as a Company Director.

Curtis A. Sampson (81)

CURTIS A. SAMPSON founded the Company in 1969 and has been a director since its inception. He currently serves as Chair of CSI's Board. He is also Chairman and a director of Canterbury Park Holding Corporation, a public company engaged in pari-mutuel and card club wagering. He is also a Regent of Augsburg College in Minneapolis, Minnesota and a member of the Emeritus Board of Overseers of the University of Minnesota's Carlson School of Management. Mr. Sampson was CSI's Chief Executive Officer from 1969 to June 2007, when he retired from full time executive responsibilities. While CEO, in addition to providing leadership to CSI's operations, Mr. Sampson managed numerous acquisitions and divestitures, including spin offs of two internally developed business units that were subsequently sold in transactions generating an aggregate of approximately \$200 million in cash for their shareholders. Over the course of his career, Mr. Sampson has also served on other non-profit boards, telephone industry association boards and private company boards, including service as a director of the following public companies: Hector Communications Corporation (2003 to 2006), Nature Vision, Inc. (2001 to 2009) and North American Communications Corporation (1986 to 1988). The distinctive perspective Mr. C.A. Sampson brings to the Board is his knowledge, gained over 40

years leading the Company, of CSI's business, operations, markets, vendors, customers and employees in combination with his experience in business acquisitions and divestitures, perspective gained from serving on other boards and extensive executive management experience.

Randall D. Sampson (56) RANDALL D. SAMPSON has been a director since 1999. He currently serves as Chair of our Audit & Finance Committee, and also is a member of the Compensation Committee. Mr. R.D. Sampson is the son of C.A. Sampson. Mr. R.D. Sampson is the President and Chief Executive Officer, as well as a member of the Board, of Canterbury Park Holding Corporation (CPHC), positions he has held since 1994. CPHC is a public company based in Shakopee Minnesota that, led by R.D. Sampson, re-launched a failed pari-mutuel race track and stimulated the revival of Minnesota's horse breeding and training industries. Under his leadership, the Canterbury Park Racetrack has become a unique, family-friendly venue for live horse races and other entertainment, as well as pari-mutuel and card club wagering. Before becoming one of the three co-founders of CPHC in 1994, and after graduating from college with a degree in accounting, Mr. Sampson worked for five years in the audit department of a large public accounting firm where he earned his CPA certification, subsequently gained experience as a controller of a private company, served as a chief financial officer of a public company and managed Sampson family interests in horse breeding and training. The challenging nature of Canterbury Park's business has demanded from its CEO an entrepreneurial mindset, attention to expense control, continuous innovation in marketing, and attention to the needs of customers, which, along with other qualities, Mr. R.D. Sampson uniquely brings to the governance responsibilities of the CSI Board.

Vote Required

Directors are elected by a plurality of the votes cast. Therefore, the six nominees who receive the highest number of votes will be elected as directors.

Recommendation of the Board

The Board unanimously recommends that you vote FOR the election of each of the nominees named above as a director.

PROPOSAL NO. 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP (Deloitte), the member firms of Deloitte Touche Tohmatsu, and their respective affiliates have been the Company's independent registered public accounting firm since 1982. The Board of Directors, upon recommendation of the Audit Committee, is requesting shareholder ratification of the appointment of Deloitte & Touche LLP to serve as the independent registered public accounting firm for the Company for the current fiscal year ending December 31, 2015. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting of Shareholders and will have an opportunity to make a statement and will be available to respond to appropriate questions.

Vote Required

The affirmative vote of a majority of the outstanding shares of the Company's Common Stock voting at the meeting in person or by proxy is required for approval.

Recommendation of the Board

The Board of Directors recommends that the shareholders vote FOR the proposal to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for our 2015 fiscal year.

CORPORATE GOVERNANCE AND BOARD MATTERS

General Information

Our Board is committed to sound and effective corporate governance practices. Our governance policies are consistent with applicable provisions of the rules of the Securities and Exchange Commission (the SEC) and the listing standards of the NASDAQ Stock Market (NASDAQ). We also periodically review our governance policies and practices in comparison to those suggested by authorities in corporate governance and the practices of other public companies.

You can access our corporate governance charters and other related materials by following links on the Corporate Governance page of our website <http://commsystems.com>.

The Board, Board Committees and Meetings

Meeting Attendance. Our Board meets regularly during the year to review matters affecting our Company and to act on matters requiring Board approval. Each of our directors is expected to make a reasonable effort to attend all meetings of the Board, applicable committee meetings and our annual meeting of shareholders. During 2014, the Board met five times. Each of our directors attended at least 75% of the meetings of the Board and committees on which he or she served, and all directors attended the 2014 Annual Meeting of Shareholders.

Board Committees. Our Board has established two standing committees: Audit & Finance, and Compensation. Only members of the Board serve on these committees. Following is information about each committee:

Audit & Finance Committee. The Audit & Finance Committee is responsible for the engagement, retention and replacement of the independent registered public accounting firm, approval of transactions between the Company and a director or executive officer unrelated to service as a director or officer, approval of non-audit services provided by the Company's independent registered public accounting firm,

oversight of the Company's internal controls and the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters. Deloitte & Touche LLP, the Company's independent registered public accounting firm, reports directly to the Audit & Finance Committee. The Audit & Finance Committee operates under a formal charter that was most recently amended in November 13, 2014. The current members of the Audit & Finance Committee are Luella G. Goldberg, Richard A. Primuth, and Randall D. Sampson (Chair). Ms. Goldberg, Mr. Primuth and Mr. Sampson are each independent under SEC Rules and NASDAQ listing standards. In addition, the Board of Directors has determined that Randall D. Sampson qualifies as the Committee's financial expert. The Audit & Finance Committee met five times during 2014. The Audit & Finance Committee Report begins on page 51.

Compensation Committee. The Compensation Committee is responsible for the overall compensation strategy and policies of the Company; reviews and approves the compensation and other terms of employment of the Company's chief executive officer and other executive officers, subject to final Board approval; oversees the establishment of performance goals and objectives for the Company's executive officers; administers the Company's incentive compensation plans; considers the adoption of other or additional compensation plans; and, provides oversight and final determinations with respect to the Company's 401(k) plan, employee stock ownership plan and other similar employee benefit plans. The Committee operates under a charter approved by the Board that was most recently amended on March 7, 2014. The current members of the Compensation Committee are Gerald D. Pint, Richard A. Primuth (Chair) and Randall D. Sampson. Each member of the Compensation Committee is independent under NASDAQ standards. The Committee met four times in 2014.

Director Independence

The Board of Directors has adopted director independence guidelines that conform to the definitions of independence set forth in Section 301 of the Sarbanes-Oxley Act of 2002, Rule 10A-3 under the Securities Exchange Act of 1934 and listing standards of NASDAQ. In accordance with these guidelines, the Board of Directors has reviewed and considered facts and circumstances relevant to the independence of each of our directors and director nominees and has determined that each of the following directors qualifies as independent under NASDAQ listing standards: Luella G. Goldberg, Gerald D. Pint, Richard A. Primuth, Curtis A. Sampson and Randall D. Sampson.

Selecting Nominees for Election to the Board

The full Board of Directors recommends nominees for election as directors at our annual shareholder meetings. In this regard, the Board reviews its composition to determine the qualifications and areas of expertise needed to further enhance the Board's ability to fulfill its responsibilities, and works with management in attracting candidates with those qualifications. Although the Board does not have a formal policy regarding diversity in addition to minimum requirements of integrity, ability to make independent analytical inquiries, personal health and a willingness to devote adequate time and effort to Board responsibilities, the Board seeks individuals who reflect diversity in background, education, business experience, skills, business relationships and associations and other factors that will contribute to the Board's governance of the Company.

In making recommendations regarding nominees for election as directors, the Board will consider qualified candidates that are proposed by our shareholders. Shareholders can submit qualified candidates, together with appropriate biographical information, to the Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Any shareholder desiring to submit a director candidate for consideration at our 2016 Annual Meeting of Shareholders must ensure that the submission is received by the Company no later than December 16, 2015 in order to provide adequate time for the Board to properly consider the candidate.

Shareholders may directly nominate an individual for election to the Board at our shareholders meeting by following procedures in our Bylaws. A shareholder wishing to formally nominate an individual

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to election to the Board at future shareholder meetings should follow the procedure set forth below under the caption Other Information Shareholder Proposals for 2016 Annual Meeting --Shareholder Nominations.

Board Leadership

Our Governance Guidelines separate the roles of Chair of the Board and Chief Executive Officer. These positions are respectively held by Curtis A. Sampson and Roger H.D. Lacey. This structure enables the Chair, in collaboration with other non-employee Directors, to have an active role in setting agendas and establishing Board priorities and procedures.

Ms. Luella Goldberg serves as Lead Governance Director and, in this capacity, provides leadership with respect to determining the size and composition of the Board, and, in finding individuals qualified to become Board members, as well as reviewing the size and composition of the Board committees, facilitating Board self-assessment and advising on other governance topics.

Mr. Richard Primuth, in addition to his other Director responsibilities, has been designated as Board Secretary. In this capacity, he is responsible for keeping minutes of the board and committee meetings, developing and maintaining an annual calendar of board and committee meetings and responsibilities, facilitating the flow of information regarding business operations and results to the board, assisting the chairman and CEO on developing agendas for board meetings and providing company officers with board level input on pending legal matters, material contract, corporate developments and other developments in the Company's business.

Board's Role in Managing Risk

In general, management is responsible for the day-to-day management of the risks the Company faces, while the Board, acting as a whole and through the Audit & Finance Committee, has responsibility for oversight of risk management. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Members of senior management attend the regular meetings of the Board and are available to address questions and concerns raised by the Board related to risk management. In addition, our Board regularly discusses with management, the Company's independent registered public accounting firm and the internal auditor, identified major risk exposures, their potential financial impact on the Company, and steps that could be taken to manage these risks.

The Audit & Finance Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements. The Audit & Finance Committee reviews the Company's financial statements and meets with the Company's independent registered public accounting firm and internal auditor at least four times each year to review their reports on the adequacy and effectiveness of our internal audit and internal control systems, and to discuss policies with respect to risk assessment and risk management.

Director Compensation

Compensation information paid to non-employee directors of the Company in 2014 is set forth under the caption Director Compensation beginning on page 36.

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct (the Code) applicable to all of the Company's officers, directors, employees and consultants that establish guidelines for professional and ethical conduct in the workplace. The Code also contains a special set of guidelines applicable to the Company's senior financial officers, including the chief executive officer, principal financial officer, principal accounting officer, and others involved in the preparation of the Company's financial reports.

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These guidelines are intended to promote the ethical handling of conflicts of interest, full and fair disclosure in periodic reports filed by the Company, and compliance with laws, rules and regulations concerning this periodic reporting. A copy of the Code is available by following links on the Corporate Governance page of our website at <http://commsystems.com>, and is also available, without charge, by writing to the Company's Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

Contacting the Board of Directors

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Summary Ownership Table

The following table sets forth certain information with respect to the Company's common stock beneficially owned by: (i) each person known by the Company to own of record or beneficially 5% or more of the Company's common stock, (ii) each director, (iii) each current Named Executive Officer listed under Executive Compensation and Related Information, and (iv) all officers and directors of the Company as a group, in each case based upon information available as of March 24, 2015 (unless otherwise noted), and all shares subject to options reflect options that may be exercised within 60 days of March 24, 2015, and restricted stock units (RSUs) that will be settled in shares within 60 days of March 24, 2015.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Curtis A. Sampson 10900 Red Circle Drive Minnetonka, MN 55343	1,068,850 ⁽¹⁾	12.3%
GAMCO One Corporate Center Rye, New York 10580	804,869 ⁽²⁾	9.3%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	633,278 ⁽³⁾	7.3%
Communications Systems, Inc. Employee Stock Ownership Plan 10900 Red Circle Drive Minnetonka, MN 55343	564,897 ⁽⁴⁾	6.5%
Ira Albert 1304 SW 160th Avenue, Suite 209 Fort Lauderdale, FL 33326	519,151 ⁽⁵⁾	6.0%
Roger H.D. Lacey	42,314 ⁽⁶⁾	*
Bruce C. Blackwood	36,421 ⁽⁷⁾	*
Scott Fluegge	20,496 ⁽⁸⁾	*
Edwin C. Freeman	53,356 ⁽⁹⁾	*
Scott Otis	7,256 ⁽¹⁰⁾	*
Luella G. Goldberg	46,363 ⁽¹¹⁾	*
Gerald D. Pint	34,963 ⁽¹²⁾	*
Richard A. Primuth	7,063 ⁽¹³⁾	*
Randall D. Sampson	107,687 ⁽¹⁴⁾	1.2%
All directors and executive officers as a group (11 persons)	1,435,916 ⁽¹⁵⁾	16.3%

* Indicates less than one percent ownership.

A Director or a Named Executive Officer of the Company.

- (1) Includes 581,339 shares §owned by Mr. Curtis A. Sampson directly, 405,000 shares held indirectly in irrevocable trusts for the benefit of Mr. Sampson s children and grandchildren, of which Mr. Sampson is a trustee and as to which he disclaims beneficial interest, 26,114 shares owned by his spouse, as to which beneficial ownership is disclaimed, 9,000 shares subject to options, 4,040 restricted stock units that will be issued as shares on May 21, 2015 and 43,354 shares allotted to his Communications Systems, Inc. Employee Stock Ownership Plan (CSI ESOP) account as of December 31, 2014.
- (2) The aggregate number of shares includes 230,000 by Gabelli Funds, LLC; 378,600 by GAMCO Asset Management, Inc. 187,269 by Teton Advisors, Inc and 9,000 by Mario J. Gabelli, according to a Schedule 13D/A filed with the SEC on April 7, 2015.
- (3) The aggregate number of shares held by Dimensional Fund Advisors LP (Dimensional) is owned by four investment companies and certain other commingled group trusts and separate accounts. In its role as investment advisor, Dimensional is deemed to have beneficial ownership of the securities as reported on Schedule 13G filed with the Securities and Exchange Commission on February 10, 2015.
- (4) Messrs. Curtis A. Sampson, Roger H.D. Lacey and Edwin C. Freeman serve as Trustees of the CSI ESOP, and disclaim beneficial ownership of the shares held by the CSI ESOP, except for shares allocated to their respective accounts.
- (5) The aggregate number of shares listed above includes shares owned by Albert Investment Associates, L.P., shares owned by Ira Albert personally, and shares owned by accounts over which Ira Albert has discretionary voting and dispositive authority, as reported on the most recent Schedule 13D/A filed with the Securities and Exchange Commission.
- (6) Includes 20,079 shares owned by Mr. Lacey directly, 18,195 shares subject to options and 4,040 restricted stock units that will be issued as shares on May 21, 2015.
- (7) Includes 71 shares owned by Mr. Blackwood directly, 25,835 shares subject to options, 1,077 restricted stock units that will be issued as shares within 60 days of March 24, 2015 and 9,438 shares allotted to Mr. Blackwood s CSI ESOP account at December 31, 2014.
- (8) Includes 1,449 shares owned by Mr. Fluegge directly, 16,814 shares subject to options, 979 restricted stock units that will be issued as shares within 60 days of March 24, 2015, and 1,254 shares allotted to Mr. Fluegge s CSI ESOP account at December 31, 2014.
- (9) Includes 24,640 shares owned by Mr. Freeman directly, 27,085 shares subject to options and 1,631 restricted stock units that will be issued as shares within 60 days of March 24, 2015.
- (10) Includes 399 shares owned by Mr. Otis directly, 5,819 shares subject to options and 1,038 restricted stock units that will be issued as shares within 60 days of March 24, 2015.
- (11) Includes 24,323 shares owned by Ms. Goldberg directly, 18,000 shares subject to options and 4,040 restricted stock units that will be issued as shares on May 21, 2015.
- (12) Includes 12,923 shares owned directly by Mr. Pint, 18,000 shares subject to options and 4,040 restricted stock units that will be issued as shares on May 21, 2015.
- (13) Includes 5,000 shares owned by Mr. Primuth directly and 2,063 restricted stock units that will be issued as shares on May 21, 2015.
- (14) Includes 51,447 shares owned by Mr. Sampson directly, 34,200 shares owned by his spouse and children, 18,000 shares subject to options and 4,040 restricted stock units that will be issued as shares on May 21, 2015.
- (15) Includes 724,613 shares owned by officers and directors as a group directly, 162,668 shares subject to options, 27,349 restricted stock units, 60,314 shares held by their respective spouses and children, 405,000 shares held in irrevocable trusts, 156,478 shares subject to option, and 55,973 shares held by the CSI ESOP for the benefit of these officers and directors.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company s officers, directors and beneficial holders of 10% or more of the Company s securities are required to file reports of their beneficial ownership with the Securities and Exchange Commission on Forms 3, 4 and 5. According to the Company s records, the only reporting person who filed a late in the fiscal year ended December 31, 2014 was Roger H.D. Lacey who filed late reporting 277 shares that he purchased through a dividend reinvestment plan.

Five-Year Performance Graph

The following graph presents, at the end of each of the Company's last five fiscal years, the cumulative total return on the common stock of the Company as compared to the cumulative total return reported for the NASDAQ (U.S.), and the NASDAQ Telecommunications Index. Company information and each index assume the investment of \$100 on the last business day before January 1, 2009 and the reinvestment of all dividends.

Comparison of Five-Year Cumulative Total Return

Company or Index	2009	2010	2011	2012	2013	2014
Communications Systems, Inc.	\$ 100.000	\$ 118.455	\$ 123.289	\$ 96.579	\$ 109.726	\$ 109.165
NASDAQ US	100.000	129.261	151.943	152.417	177.459	236.879
NASDAQ TELCOM	100.000	110.924	132.294	139.737	168.433	191.004

EXECUTIVE COMPENSATION AND RELATED INFORMATION**COMPENSATION DISCUSSION AND ANALYSIS**

Communication Systems, Inc. (the "Company") is a leading supplier of products for telecommunications and data communications markets. It also provides information systems products and services for schools and businesses in southeast Florida. Our operations are organized and managed around our three primary business units: Suttle, Inc. ("Suttle"), Transition Networks, Inc. ("TNI") and JDL Technologies ("JDL").

This Compensation Discussion and Analysis ("CD&A") covers our three fiscal years ending December 31, 2014, with primary emphasis on our 2014 fiscal year. It provides information regarding executive compensation objectives and policies, compensation plans for our Senior Executives (defined below), and compensation paid or potentially payable to the Senior Executives under these plans. This CD&A uses the following terms when discussing executive compensation: