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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): **March 1, 2012**

Communications Systems, Inc.

(Exact name of Registrant as Specified in its Charter)

Minnesota
(State Or Other Jurisdiction
Of Incorporation)

001-31588
(Commission File Number)

41-0957999
(I.R.S. Employer Identification No.)

10900 Red Circle Drive Minnetonka, MN
(Address Of Principal Executive Offices)

55343
(Zip Code)

Registrant's Telephone Number, Including Area Code **(952) 996-1674**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act
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Items under Sections 1, 2, 3, 4, 6 and 7 are not applicable and therefore omitted.

ITEM 5.02 **DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.**

2011 Short Term Incentive Plan Payouts

On March 1, 2012, the Compensation Committee and the Board of Directors of Communications Systems, Inc. (the "Company") approved the total amount of cash incentive payments and stock grants to the Company's current senior executive officers and business unit leaders ("Senior Executives") under the Company's 2011 short term incentive compensation plan for executive officers (the "2011 Short Term Incentive Plan"). Cash payments and stock grants are based upon achievement in relation to quarterly and annual goals with respect to sales, operating income, inventory levels and outstanding receivables that were approved by the Compensation Committee in March 2011. Short term incentive compensation is paid primarily in cash, but stock grants are made if actual revenues exceed 110% of target revenues during a quarter or over the full fiscal year. The following table summarizes the total amount paid and to be paid in cash and stock grants under the Company's 2011 Short Term Incentive Plan to the Company's Senior Executives.

Name of Senior Executive	2011 Short Term Cash Incentive Pay	Stock Grants
William G. Schultz, President & Chief Executive Officer	\$ 213,916	589
David T. McGraw, Chief Financial Officer	\$ 172,884	456
Bruce Blackwood, Vice President & General Manager, Suttle	\$ 63,593	—
Sev Sadura, Vice President & General Manager, Transition Networks, Inc.	\$ 97,489	932
Karen Nesburg Bleick, V.P. of Human Resources	\$ 55,129	145

2011 Payouts under the Company's Long Term Incentive Plan

On March 1, 2012, the Compensation Committee and the Board of Directors approved amounts earned for 2011 under the Company's Performance Unit Incentive Plan ("PUP Plan") for the 2008 – 2011 performance period. Payments under the PUP Plan for the 2008 to 2011 performance period are based upon actual achievement as compared to annual goals for return on assets and operating income that were established by the Compensation Committee and approved by the Company's Board of Directors in March 2011. The following table summarizes the approved payouts for 2011 under the PUP Plan to the Company's Senior Executives.

Name of Senior Executive	2011 Amount Earned under 2008-2011 PUP Plan	
William G. Schultz, President & Chief Executive Officer	\$	53,710
David T. McGraw, Chief Financial Officer	\$	50,282
Bruce Blackwood, Vice President & General Manager, Suttle	\$	13,137
Sev Sadura, Vice President & General Manager, Transition Networks, Inc.		—
Karen Nesburg Bleick, V.P. of Human Resources	\$	14,366

Adoption of Annual Bonus Plan and Grant of 2012 Awards Under the Annual Bonus Plan

On March 1, 2012, the Board of Directors of Communications Systems, Inc. (the "Company") approved a new plan for annual incentive compensation called the Communications Systems, Inc. Annual Bonus Plan ("Annual Bonus Plan"). Pursuant to the Annual Bonus Plan, on March 1, 2012 the Compensation Committee and the Board awarded bonus opportunities to the Senior Executives named above. The Annual Bonus Plan is a sub-plan of the 2011 Executive Incentive Compensation Plan approved by the Company's shareholders in May 2011.

Under the Annual Bonus Plan, the Company determines quarterly and annual minimum, target and maximum performance goals. The performance goals are weighted such that 50% of the bonus opportunity is tied to achievement of quarterly or six month performance goals and 50% of the bonus opportunity is tied to achievement of performance goals for the fiscal year. Performance measures applicable to Senior Executives include revenue, operating income, international revenue, revenue from new products, inventory levels and outstanding revenues, but primary weight is given to achieving revenue and operating income targets. Bonuses earned based on achievement in comparison to quarterly and six month goals during the first nine months of the fiscal year are paid approximately 45 days after the period measured and bonuses earned based on achievement in comparison in the fourth quarter and over the full year are paid out approximately 75 days after fiscal year end. Payments of bonuses generally begin at achievement exceeding 80% of target performance goals. Bonuses are paid primarily in cash, but stock grants are made in lieu of cash if actual revenues exceed 110% of target revenues during a quarter or over the full fiscal year. The target and maximum bonus Senior Executives may potentially earn under the Annual Bonus Plan is based upon a percentage of their respective salaries. Under the 2012 Plan, the maximum bonus that may be paid to any participant may not exceed two times his or her bonus at target for revenues and 1.5 times his or her bonus at target for operating income even if financial performance exceeds the maximum. Further, no bonus amounts will be earned by any participant for a quarter or the year if the minimum goals for that period are not achieved. Senior Executives must be employed by the Company as of the end of the relevant period (quarter, six month or full fiscal year) in order to be entitled to receive payout of any bonus earned for such period, unless termination of employment is due to death, disability or follows a change of control. The Compensation Committee must approve bonuses paid to Senior Executives before payment.

The following table shows potential bonus amounts as a percentage of salary that may be earned by the Senior Executives for 2012 performance under the Annual Bonus Plan upon the Company's achievement of the target and maximum goals related to revenues, operating income, international revenues, new product development, inventory levels and receivables outstanding, assuming achievement at target and maximum level. Under the matrices associated with the 2012 Annual Bonus Plan achievement of the performance goals at less than target level results in a decreasing bonus and if achievement fails to meet the minimum performance goals the participant is entitled to no bonus.

**Bonus Opportunity As a Percentage of Base Salary
Under the Annual Bonus Plan for 2012 Performance**

<u>Executive Officer and Title</u>	<u>Cash Payable If Target Goals Achieved</u>	<u>Cash Payable If Maximum Goals Achieved</u>	<u>Stock Grant Value If Maximum Goals Achieved</u>
William G. Schultz, President & CEO	70%	103%	10%
David T. McGraw, Chief Financial Officer	55%	85%	8%
Bruce Blackwood, General Manager, Suttle	50%	80%	7.5%
Sev Sadura, General Manager, Transition Networks, Inc.	50%	80%	7.5%
Karen Nesburg Bleick, V.P. of Human Resources	30%	47%	4.5%

Amendment of Long Term Incentive Plan and Grant of Awards under the Long Term Incentive Plan

On March 1, 2012 the Board of Directors of the Company approved amendments to the Company's PUP Plan primarily to adapt it to become a sub-plan of the Company's 2011 Executive Incentive Compensation Plan, which was approved by the Company's shareholders in May 2011. In addition, the PUP Plan was re-named as the Communications Systems, Inc. Long Term Incentive Compensation Plan (the "Long Term Plan"). On March 1, 2012 the Board also awarded opportunities to earn long term incentive compensation under the Long Term Plan to Senior Executives identified above. Under the Long Term Plan, the Company determines performance measures for successive three year periods (performance periods) at minimum, target and maximum levels of performance. For the 2012 to 2014 performance period, the two performance measures are consolidated pretax average return on assets over the three year period and consolidated cumulative revenue over the three year period. Following 2014 the Compensation Committee will assess actual performance against the performance measures established and pay incentive compensation earned 25% in cash and 75% in stock. The number of shares that are issued following the end of the performance period is the earned amount expressed in dollars divided by the average share price for the Company's common stock over the 20 business days beginning March 1, 2012. Following the end of the Performance Period, the Compensation Committee must approve amounts earned under the Long Term Plan. The following table shows the value of the long term awards as a percentage of salary that may be earned by the Senior Executives under the 2012-2014 Long Term Plan upon the Company's achievement of target and maximum goals. Under the matrices associated with the 2012 Long Term Plan, achievement of the performance goals at less than target levels result in a decreasing level of long term compensation and if achievement fails to meet the minimum performance goals the participant will not be entitled to any payment under the Long Term Plan.

Executive Officer and Title	2012 Long Term Incentive Pay Opportunity As a Percentage of Base Salary Under the Company's Long Term Incentive Plan	
	Target Goals Achieved	Maximum Goals Achieved
William G. Schultz, President & Chief Executive Officer	70%	140%
David T. McGraw, Chief Financial Officer	42%	84%
Bruce Blackwood, Vice President & General Manager, Suttle	35%	70%
Sev Sadura, Vice President & General Manager, Transition Networks, Inc.	35%	70%
Karen Nesburg Bleick, V.P. of Human Resources	14%	28%

ITEM 9.01

FINANCIAL STATEMENTS AND EXHIBITS.

Exhibit No.

Description

99.1	Communications Systems Inc. Annual Bonus Plan
99.2	Communications Systems Inc. Long Term Incentive Plan, as amended through March 1, 2012.

SIGNATURE

Pursuant to the requirements 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.

By: /s/ David T. McGraw
David T. McGraw
Chief Financial Officer

Date: March 9, 2012



COMMUNICATION SYSTEMS, INC.

ANNUAL BONUS PLAN

Approved by the Board of Directors on March 1, 2012

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Section 1. Establishment and General Purpose of the Plan

- 1.1 Establishment. The name of this plan is the “Communications Systems, Inc. Annual Bonus Plan” (the “Plan”). The Plan shall be effective beginning with the Company’s fiscal year beginning January 1, 2012.
- 1.2 Relation to 2011 Executive Incentive Compensation Plan. This is a sub-plan to the Company’s 2011 Executive Incentive Compensation Plan (the “EIC Plan”). Unless otherwise expressly provided herein, all provisions of the EIC Plan, to the extent relevant to the terms of this Plan, shall be applicable to and are hereby incorporated by reference into this Plan.
- 1.3 Purpose. The purpose of this Plan is to provide a comprehensive framework pursuant to which opportunities for incentive compensation generally covering periods of one year or less can be awarded to Senior Executives and other employees of Communications Systems, Inc. in order to focus their efforts on achievement of near term financial objectives critical to the success of the Company; to reward accomplishments when performance meets or exceeds established targets or business plan objectives; and to more closely tie their compensation to the annual financial results of the Company.

Section 2. Definitions

All capitalized terms used herein shall have the meanings assigned to such terms in the EIC Plan, except that terms defined in this Section 2 shall have the meanings respectively indicated, but solely for purposes of this Plan.

- 2.1 “Bonus Award” means the grant of an opportunity to receive a payment in cash upon achievement of Performance Goals as of the end of a Performance Period as determined by the Committee or Internal Committee in accordance with, respectively, Section 3 or Section 4 of the Plan; provided that, with respect to Senior Executives, a Bonus Award may include an award of Shares. A Bonus Award shall constitute an “Other Award” as defined in the EIC Plan.
- 2.2 “Bonus Award Agreement” means a written agreement between the Company and a Participant describing a Bonus Award for such Participant.
- 2.3 “Company Employee” means each Employee of the Company other than a Senior Executive.
- 2.4 “Compensation Committee” means the Compensation Committee of the Board of Directors, and has the same meaning as “Committee” in the EIC Plan.
- 2.5 “Employee” means a person who performs services for the Company and who is regularly paid through the payroll of the Company, whether or not a Senior Executive or member of the Board, but, unless otherwise expressly determined by the Internal Committee, this term does not include (i) any temporary employee, (ii) any person serving the Company only as a member of the Board of Directors, and (iii) any person eligible for other forms of variable compensation (e.g., commissions).

- 2.6 “Internal Committee” means a committee of the Company which shall consist of the individuals serving in the following positions as Company officers: Chief Executive Officer, Chief Financial Officer, Vice President of Human Resources, and Controller, as well as any other person designated by the Compensation Committee.
- 2.7 “Participant” means any Senior Executive or Company Employee who is eligible and is selected by the Compensation Committee or the Internal Committee to participate in the Plan under, respectively, Section 3 or Section 4 herein.
- 2.8 “Payout” means a payment of the cash or (in the case of Senior Executives) Shares earned in relation to the Performance Goals specified in the Bonus Award Agreement.
- 2.9 “Performance Period” means a measuring period of time determined by the Committee or Internal Committee that is twelve months or less, over which the Performance Goals established by the Committee must be achieved to earn a Payout under a Bonus Award.
- 2.10 “Plan” means this Annual Bonus Plan.
- 2.11 “Plan Year” means the applicable fiscal year of the Company.
- 2.12 “Senior Executive” means the (i) Company’s Chief Executive Officer, (ii) the Company’s Chief Financial Officer, (iii) other members of the Company’s corporate staff earning a base salary of at least \$100,000 per annum, (iv) General Managers of the Company’s business units, and (v) any other person who is or could become a Named Executive Officer under Section 402 of SEC Registration S-K.

Section 3. Administration of the Plan For Bonus Awards to Senior Executives

- 3.1 Administration. The Compensation Committee shall administer the Plan with respect to Bonus Awards for Senior Executives pursuant to this Section 3.
- 3.2 Power and Authority of the Committee. The Compensation Committee is authorized to make all decisions as required in the administration of this Section 3 and to exercise its discretion to establish, amend, suspend, terminate, define, interpret, construe, apply, approve, withdraw and make any exceptions to the terms of the Plan it deems necessary or advisable for the proper administration of this Section 3 not inconsistent with the terms of this Plan or the EIC Plan. The Compensation Committee shall have the power and authority to grant Bonus Awards to Participants that are Senior Executives pursuant to the terms of the Plan. In discharging its responsibilities, the Committee may, to the extent reasonable, rely on information supplied by and recommendations of the Internal Committee and its individual members. In particular, the Compensation Committee shall have the authority:

- a. to select eligible Employees that qualify as Senior Executives to whom Bonus Awards may from time to time be granted hereunder;
- b. to determine the Performance Period, the Performance Goals, and the criteria to determine Payout under the Bonus Award (including, but not limited to, the degree to which the Performance Goals are met and the base salary, other compensation or other factors by reference to which the Bonus Award is determined and is paid);
- c. to determine other terms and conditions, not inconsistent with the terms of the Plan, of any Bonus Award granted hereunder (including, but not limited to, any restriction on, forfeiture of, or repayment of any Bonus Award); and,
- d. to make any other determination and take any other action that the Compensation Committee deems necessary or desirable for the administration of this Section 3.

3.3 Further Provisions Regarding Participation and Bonus Awards. The Compensation Committee shall determine the date as of which each eligible Senior Executive shall commence to participate in the Plan and the Bonus Award to which the Senior Executive is then eligible. Selection to be a Participant in this Plan with respect to any designated Performance Period does not guarantee that the Senior Executive will be selected to be a Participant in any other Bonus Award under this Plan, and the Compensation Committee shall not have any obligation for uniformity of treatment among eligible Employees.

3.4 Certification. Following the end of each Performance Period and prior to payment of amounts earned under any Bonus Award to any Senior Executive, the Compensation Committee shall certify in writing as to the attainment of the Performance Goals upon which payments of amounts earned under any Bonus Award to Senior Executives is based.

Section 4. Administration of the Plan for Bonus Awards to Company Employees.

4.1 Administration by the Internal Committee. The Internal Committee shall administer the Plan for Bonus Awards to Company Employees pursuant to this Section 4, provided that the Internal Committee and its administration of the Plan under this Section 4 shall at all times be subject to the oversight, direction and control of the Compensation Committee.

4.2 Power and Authority of the Internal Committee. The Internal Committee is authorized to make all decisions as required in the administration of this Section 4 and to exercise its discretion to interpret, construe, apply or make any exceptions to the terms of the Plan it deems necessary or advisable for the proper administration of this Section 4 not inconsistent with the terms of this Plan or guidelines approved or decisions made by the Compensation Committee. The Internal Committee shall have the power and authority to grant Bonus Awards to Company Employees, pursuant to the terms of the Plan. In particular, the Internal Committee shall have the authority:

- a. to select eligible Company Employees to whom Bonus Awards may from time to time be granted hereunder;
- b. to determine the Performance Period, the Performance Goals, and the criteria to determine the amount due under the Bonus Award (including, but not limited to, the degree to which the Performance Goals are met, and the base salary, other compensation or other factors by reference to which the Bonus Award is determined and is paid); and
- c. to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Bonus Award granted hereunder (including, but not limited to, any restriction on, forfeiture of, or repayment of any Bonus Award).

4.3 Further Provisions Regarding Participation. The Internal Committee shall determine the date as of which each eligible Company Employee shall commence to participate in the Plan and the Bonus Award to which the Employee is then eligible. Selection as an eligible Company Employee to be a Participant in this Plan with respect to any designated Performance Period does not guarantee that the Company Employee will be selected to be a Participant in any other Bonus Award under this Plan, and the Internal Committee shall not have any obligation for uniformity of treatment among eligible Company Employees.

Section 5. Other Provisions Applicable to All Bonus Awards

5.1 Performance Period. A Performance Period may be of any length not to exceed one year, and must be established prior to the start of such period or within the first ninety (90) days of such period (provided that, with respect to quarterly periods after the first fiscal quarter, the Performance Goals may not in any event be set after 25% or more of such period has elapsed). Performance Periods may run concurrently and may contain interim dates during the Performance Period on which the achievement of Performance Goals may be determined and Payouts may be made.

5.2 Form of Bonus Awards. Each Bonus Award granted will specify Performance Goals established by the Compensation Committee or the Internal Committee, as the case may be, for the applicable Performance Period with respect to "Threshold," "Target," and "Maximum" levels of future performance by the Company or the business unit to which the Participant is assigned:

- a. "Threshold" levels of performance shall represent a minimum level of actual performance in relation to Performance Goals below which no Payout will be earned by a Participant.
- b. "Target levels" of performance shall represent the level of actual performance in relation to the Performance Goals that must be achieved in order for a Participant to receive the Payout designated in the Bonus Award Agreement as being payable to the Participant if "Target" performance by the Company or business unit is achieved.

- c. Maximum levels of performance shall represent the level of actual performance in relation to the Performance Goals which must be achieved in order for a Participant to receive the Payout designated in the Participation Agreement as being the maximum payable to the Participant if “Maximum” performance by the Company or business unit is achieved or exceeded.
- 5.3 Modifications to Performance Goals. Except to the extent limited by this Plan, the EIC Plan or applicable law, the Compensation Committee shall have the discretion to adjust the determinations of the degree of attainment of the Performance Goals. In the event that the applicable tax and/or securities laws and regulatory rules and regulations change to permit Compensation Committee discretion to alter the Performance Goals without obtaining shareholder approval of such changes, the Compensation Committee shall have sole discretion to make such changes without obtaining shareholder approval.
- 5.4 Payouts Under Bonus Awards. The amount of cash and (in the case of Senior Executives) Shares earned by and payable to Participants under Awards shall be determined following the end of the Performance Period applicable to the Bonus Award, and shall be based on actual achievement against the Performance Goals specified in the respective Bonus Award Agreement. With respect to (i) actual performance between Performance Goals applicable to Threshold Performance and Performance Goals applicable to Target Performance, and (ii) with respect to actual performance between Performance Goals applicable to Target Performance and Performance Goals applicable to Maximum Performance, the Participation Agreement shall provide a method for determining the amount of the Payout in cash and Shares.
- 5.5 Timing of Payouts. Payouts of amounts earned under Bonus Awards will be made (whether in cash or shares) within 90 days of the end of the Performance Period or at such earlier date required in order to book expenses for fiscal year end tax and reporting purposes; provided that, with respect to Payouts of Bonus Awards for Senior Executives, the Compensation Committee must certify to the achievement of the Performance Goals prior to making Payouts to Senior Executives.
- 5.6 Compensation Committee Rule Making and Interpretations. The Compensation Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any Bonus Award granted under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of this Plan.
- 5.7 Taxes. In order to comply with all applicable federal or state income, social security, payroll, withholding or other tax laws or regulations, the Company may take such action, and may require a Participant to take such action, as it deems appropriate to ensure that all applicable federal or state income, social security, payroll, withholding or other taxes, which are the sole and absolute responsibility of the Participant, are withheld or collected from such Participant.

- 5.8 Effect on Employment. In the absence of any specific agreement to the contrary, no Bonus Award to a Participant under the Plan shall affect any right of the Company or any Subsidiary, to terminate, with or without cause, the Participant's employment with the Company or any Subsidiary at any time. Neither the establishment of the Plan, nor the granting of any Bonus Award hereunder, shall give any Participant (i) any rights to remain employed by the Company or any Subsidiary; (ii) any benefits not specifically provided for herein or in any Bonus Award granted hereunder; or (iii) any rights to prevent the Company or any Subsidiary from modifying, amending or terminating any of its other benefit plans of any nature whatsoever.
- 5.9 Nontransferability. Except as otherwise determined by the Compensation Committee, no right under any Bonus Award shall be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of during the time in which the requirement of continued employment or attainment of Performance Goals has not been achieved and prior to the date of actual Payout.
- 5.10 Impact of Restatement of Financial Statements. If any of the Company's financial statements are required to be restated resulting from errors, omissions or fraud, the Compensation Committee may (in its sole discretion, but acting in good faith) direct that the Company recover all or a portion of any Bonus Award to any Participant with respect to any fiscal year of the Company the financial results of which are negatively affected by such restatement. The amount to be recovered from the Participant shall be the amount by which the amount earned under the Bonus Award exceeded the amount that would have been payable to the Participant had the financial statements been initially filed as restated, or any greater or lesser amount (including, but not limited to, the entire award) that the Compensation Committee shall determine. The Compensation Committee may limit the application of this Section 7.4 to those responsible for the misstatement or to some or all Senior Executives, but in no event shall the amount to be recovered by the Company be less than the amount required to be recovered as a matter of law. The Compensation Committee shall determine whether the Company shall effect any such recovery (a) by seeking repayment from the Participant, (b) by reducing (subject to applicable law and the terms and conditions of the applicable plan, program or arrangement) the amount that would otherwise be payable to the Participant under any compensatory plan, program or arrangement maintained by the Company or any of Subsidiary, (c) by withholding payment of future increases in compensation (including the payment of any discretionary bonus amount) or grants of compensatory awards that would otherwise have been made in accordance with the Company's otherwise applicable compensation practices, or (d) by any combination of the foregoing.
- 5.11 Forfeiture and Recoupment. Without limiting in any way the generality of the Compensation Committee's power to specify any terms and conditions of a Bonus Award consistent with law, and for greater clarity, the Compensation Committee may specify that the Participant's rights, payments, and benefits with respect to a Bonus Award under this Plan shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions. Such events shall include, but shall not be limited to, termination of employment or services under certain or all circumstances, violation of material Company policies, breach of noncompetition, confidentiality, non-solicitation, noninterference, corporate property protection, or other agreement that may apply to the Participant, or other conduct by the Participant that the Compensation Committee determines is detrimental to the business or reputation of the Company and its subsidiaries.

Section 6. Term; Amendment and Termination

- 6.1 Term of Plan. The Plan shall continue in operation indefinitely, subject to the right of the Compensation Committee to terminate the Plan at any time.
- 6.2 Amendments to and Termination of Plan. Except to the extent prohibited by applicable law and unless otherwise expressly provided in the Plan or EIC Plan, the Compensation Committee may amend, alter, suspend, discontinue or terminate the Plan.
- 6.3 Correction of Defects, Omissions and Inconsistencies. Except to the extent prohibited by applicable law and unless otherwise expressly provided in the Plan, the Compensation Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Bonus Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 7. Miscellaneous

- 7.1 Governing Law. The Plan and all of the Participants' rights thereunder shall be governed by and construed in accordance with the internal laws of the State of Minnesota.
- 7.2 Severability. If any provision of the Plan, or any Bonus Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan, or any Bonus Award under any law deemed applicable by the Compensation Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Compensation Committee, materially altering the purpose or intent of the Plan and the Bonus Award, such provision shall be stricken as to such jurisdiction, and the remainder of the Plan, any such Bonus Award shall remain in full force and effect.
- 7.3 No Trust or Fund Created. Neither the Plan nor any obligations to pay amounts earned under a Bonus Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Subsidiary and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company or any Subsidiary pursuant to a Bonus Award, such right shall be no greater than the right of any unsecured general creditor of the Company or of any Subsidiary.

- 7.4 Nature of Payments. Any and all cash payments pursuant to any Bonus Award granted hereunder shall constitute special incentive payments to the Participant, and, except to the extent that such plan or agreement expressly provides to the contrary, such payments shall not be taken into account in computing the amount of the Participant's salary or compensation for purposes of determining any pension, retirement, death or other benefits under:
- a. any pension, retirement, profit sharing, bonus, life insurance or other employee benefit plan of the Company or any Subsidiary or
 - b. any agreement between the Company (or any Subsidiary) and the Participant
- 7.5 Headings. Headings are given to the Sections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

**COMMUNICATIONS SYSTEMS, INC.
LONG TERM INCENTIVE PLAN**

AS AMENDED THROUGH MARCH 1, 2012

(formerly named Performance Incentive Unit Plan)

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COMMUNICATIONS SYSTEMS, INC.

LONG TERM INCENTIVE PLAN

EFFECTIVE AS OF JANUARY 1, 2012

ARTICLE I– PURPOSE OF PLAN; APPLICATION TO PERFORMANCE PERIODS

1.1 **PURPOSE OF PLAN.** The purpose of the Communications Systems, Inc. Long Term Incentive Plan (formerly named the “Performance Incentive Unit Plan”) is to provide competitive long term compensation opportunities to enable the Company to attract and retain qualified executive talent, and to reward key employees for achieving goals and improving Company performance.

1.2 **APPLICATION TO PERFORMANCE PERIODS.** The Plan was originally effective January 1, 2004 and has been amended from time to time. The application of the Plan to Performance Periods adopted under the Plan is as follows:

- (a) The Plan as amended effective January 1, 2008 applies to Performance Periods ending on or before December 31, 2009.
- (b) The Plan as amended and restated as of January 1, 2010 applies to the 2010 to 2013 Performance Period.
- (c) The Plan as amended as of January 1, 2012 applies to Performance Periods beginning January 1, 2012.

1.3 **RELATION TO 2011 EXECUTIVE INCENTIVE COMPENSATION PLAN.** Effective January 1, 2012 this is a sub-plan to the Company’s 2011 Executive Incentive Compensation Plan (the “EIC Plan). Unless otherwise expressly provided herein, all provisions of the EIC Plan, to the extent relevant to the terms of this Plan, shall be applicable to and are hereby incorporated by reference into this plan.

ARTICLE II - DEFINITIONS

2.1 DEFINITIONS APPLICABLE TO THIS PLAN.

- (a) **INCENTIVE PAYMENT** means the amount payable from the Plan to a Participant under Article VI, whether in cash or Stock.
- (b) **CHANGE IN CONTROL** means a transaction or series of transactions occurring after the Effective Date in which either of the following events occurs:

(i) if any person or entity is or becomes, directly or indirectly, the beneficial owner of 50% or more of the combined voting power of the Company's then outstanding voting securities, or

(ii) at least 50% of the Company's assets are transferred to any unrelated person or persons.

For purposes of this Section 2.4, (i) "beneficial ownership" or "voting power" over shares of stock includes any such ownership or control, as applicable, through any contract, arrangement, or understanding, directly or indirectly, and (ii) the determination of outstanding shares of stock shall be made as of the Effective Date, giving effect to any future adjustments as may be required by Section 8.1(a) of this Plan.

(c) FISCAL YEAR means a calendar year.

(d) INCENTIVE AWARD means a grant of Performance Stock Units or Performance Cash Units, or both, pursuant to Article V of this Plan.

(e) INTERNAL COMPENSATION COMMITTEE means individuals appointed by the Compensation Committee of the Board of Directors and charged with administration of the Plan under the direction of the Committee. The Internal Compensation Committee shall be comprised of Company executives, including the Chief Executive Officer, Chief Financial Officer and Vice President, Human Resources.

(f) PARTICIPANT means anyone from among a select group of officers and key employees of the Company and its business units who have decision-making authority that has a significant impact on the long term financial results of the Company as a whole or one of its business units and who is selected by the Committee to receive an Incentive Award. Employees in grades 21 and above are eligible to participate in the Plan, although other employees may be allowed to participate at the discretion of the Committee.

(g) PARTICIPATION AGREEMENT means any certificate or agreement substantially in conformity with the terms of Section 7.1.

(h) PERFORMANCE GOALS means one or more objective or subjective measures pre-established by the Committee and selected from the Performance Goals in the EIC Plan and, subject to any minimum or maximum limits, the achievement of which, in whole or in part, will result in the Participant earning or becoming vested in an Incentive Award under this Plan in whole or in part.

(i) PERFORMANCE CASH UNIT means an Incentive Award granted to a Participant to receive cash (within a specified range) upon achievement in whole or in part of Performance Goals or a level of performance with respect to one or more Performance Goals over a specified Performance Period that is paid either at the end of the Performance Period or at a later time.

(j) PERFORMANCE PERIOD means a designated period of two or more calendar years. Effective as of January 1, 2010, Incentive Awards shall be granted for the four year Performance Period commencing January 1, 2010 and ending December 31, 2013. Effective January 1, 2012, Performance Periods shall cover a three year period beginning with the Performance Period commencing January 1, 2012.

(k) PERFORMANCE STOCK UNIT means an Incentive Award granted to a Participant to receive Shares (within a specified range) upon achievement in whole or in part of Performance Criteria or a level of performance with respect to one or more Performance Criteria over a specified Performance Period that are deliverable either at the end of the Performance Period or at a later time.

(l) PLAN means this Communications Systems, Inc. Long Term Incentive Plan (formerly Performance Unit Incentive Plan), a non-qualified deferred compensation plan covering a select group of officers and key management employees of the Company and its business units that is a sub-plan of the EIC Plan.

(m) STOCK means the common stock of the Company.

2.2 OTHER DEFINITIONS. The terms "Board," "Cause," "Committee," "Company," "Disability," and "Retirement" shall have the meanings assigned to such terms in the EIC Plan.

ARTICLE III- TERM

3.1 TERM. This Plan shall continue at the discretion of the Board or as otherwise provided in Article X.

ARTICLE IV- ADMINISTRATION

4.1 ADMINISTRATION. This Plan shall be administered by the Committee provided that certain aspects of administration of this Plan may be delegated to the Internal Compensation Committee, which shall at all times be subject to direction and oversight by the Committee. All questions of interpretation and application of this Plan, or of the terms and conditions pursuant to which Incentive Awards are granted or forfeited or pursuant to which amounts are paid under the provisions hereof, shall be subject to the determination of the Committee. Such determination shall be final and binding upon all parties affected thereby.

ARTICLE V- ELIGIBILITY AND GRANT OF INCENTIVE AWARDS

5.1 ELIGIBILITY. Employees must be designated as a Participant by the Committee in order to be eligible for Incentive Awards for any Performance Period.

5.2 GRANTS OF INCENTIVE AWARDS. Participants selected by the Committee shall be granted Incentive Awards as Performance Stock Units or Performance Cash Units, or both, based on their responsibilities expressed as a percentage of their base salary and, in the case of Performance Stock Units, the number of shares shall be determined by reference to the price per share of the Company's common stock as of the date of grant or as of an average price for the Company's shares during a period of trading days beginning no more than 20 business days before and ending no more than 20 days after the date of grant. Each Incentive Award granted will be linked to Performance Goals established by the Committee for the applicable Performance Period with respect to "threshold," "target," and "maximum" levels of future performance by the Company or the business unit to which the Participant is assigned:

(a) Threshold levels of performance shall represent the actual performance over a Performance Period in relation to Performance Goals below which no Incentive Payment will be earned by a Participant.

(b) Target levels of performance shall represent the actual performance over a Performance Period in relation to the Performance Goals that must be achieved in order for a Participant to receive the amount of cash or Stock, or both, designated in the Participation Agreement as being payable to the Participant if "Target" performance by the Company or business unit is achieved.

(c) Maximum levels of performance shall represent the actual performance over a Performance Period in relation to the Performance Goals which must be achieved in order for a Participant to receive the amount of cash or Stock, or both, designated in the Participation Agreement as being payable to the Participant if "Maximum" performance by the Company or business unit is achieved or exceeded.

Performance Goals may be based on: (i) return on assets, (ii) cumulative revenues, or, (iii) any other Performance Goals or combination of Performance Goals that may be selected by the Committee from time to time.

The Committee may determine Minimum, Target and Maximum levels of performance that cover an entire Performance Period or for specific Fiscal Years within a Performance Period, and Performance Goals may vary by classification of Participants as determined by the Committee. The maximum number of shares of Stock that may be paid to a Participant pursuant to a Performance Stock Grant shall be reserved under the EIC Plan.

5.3 ADJUSTMENTS. Participants who are promoted or who are transferred within or between business units shall have their Incentive Awards adjusted for the Performance Period in a manner determined by the Committee. The Committee may modify the Performance Goals for any Performance Period or any Fiscal Year within a Performance Period during the operation of the Plan to reflect a change in the Company's operation or structure as determined by the Committee, and the Committee's determination as to what modifications shall be made, and the extent thereof, shall be conclusive.

5.4 INCENTIVE PAYMENTS UNDER INCENTIVE AWARDS. Incentive Payments earned by and payable to Participants under Incentive Awards shall be determined following the end of the Performance Period for which the Performance Stock and Performance Units were granted, and shall be based on actual achievement against the Performance Goals specified in the respective Participation Agreements. With respect to (i) actual performance between Performance Goals applicable to Threshold Performance and Performance Goals applicable to Target Performance and (ii) with respect to actual performance between Performance Goals applicable to Target Performance and Performance Goals applicable to Maximum Performance, the Participation Agreement shall provide a method for determining what level of cash and what amount of Stock shall be paid.

5.5 SUBSEQUENT GRANTS. The Board may authorize the Committee to grant additional Incentive Awards hereunder to Participants or other employees to reward them for performance.

ARTICLE VI- BENEFITS

6.1 PAYMENT TO THE PARTICIPANT.

(a) EVENTS OF PAYMENT. A Participant shall be entitled to a payment from the Plan upon the occurrence of the Participant's (i) Retirement; (ii) death; (iii) Disability; (iv) upon a Change in Control; or (v) upon conclusion of a Performance Period.

(b) AMOUNT OF PAYMENT. Other than with respect to an event of payment described in clauses (i) (ii) (iii) or (iv) under Section 6.1(a), the Company shall pay the Participant, or his or her designated beneficiary, as applicable, the Incentive Award earned under the Participation Agreement based on Company or business unit performance over the relevant Performance Period. If the event of payment is other than the conclusion of the Performance Period, the Participant's benefit shall be equitably prorated based on the period between the commencement of Performance Period and such event, or, in the Committee's discretion, a longer period not to exceed the conclusion of the Fiscal Year in which such event of payment occurred.

(c) EQUITABLE ADJUSTMENT. In the event a Participant is terminated by the Company not for Cause and in circumstances other than as described in Section 6.1(a), the Committee may, but shall be under no obligation to, authorize a payment of such amount as it determines, but not to exceed the payment that would have been permitted if termination was due to an event of payment described in clauses (i) (ii) (iii) or (iv) under Section 6.1(a); provided, however, payment shall not be accelerated or modified in violation of Section 409A of the Internal Revenue Code. Further, if a Participant's responsibilities are materially increased during a Performance Period, the Committee may, but shall be under no obligation to, increase the Incentive Payment that may be potentially earned under an Incentive Award.

(d) TIMING AND METHOD OF PAYMENT. Incentive Awards shall be paid within 2 ½ months following the occurrence of the earliest event of payment under Section 6.1(a), as determined by the Committee with applicable withholding for such payments. However, if the Participant is a key employee, as defined in Section 416(i) of the Internal Revenue Code, then distribution shall not be made before a date which is six months after the date of the Participant's separation from service (or, if earlier, the date of death of the Participant), and this limitation shall be effective so long as the stock of the Company remains publicly traded on an established securities market or otherwise.

(e) DEFERRAL OF PAYMENT. The Plan shall not permit a deferral of distributions.

(f) SURVIVOR BENEFIT. If the Participant dies before receiving the Incentive Payment provided under a Participation Agreement, then the Incentive Payment shall be payable to the Participant's beneficiary as designated under Section 6.3, and shall be paid, in accordance with Sections 6.1(c), (d) or (e), as applicable.

6.2 DESIGNATION OF BENEFICIARY. Each Participant shall file with the Committee, on the Participation Agreement or other form prescribed by the Company, a written designation of the person or persons to receive Incentive Payments under this Plan. This right shall include the right to name and change primary and contingent beneficiaries, but any designation of beneficiaries shall be effective only when filed by the Participant in writing with the Committee during the Participant's lifetime. In the absence of such written designation or if the beneficiary so named by the deceased Participant dies before him or her, the following shall be considered the designated beneficiary, in order of priority:

- (a) The Participant's spouse, if surviving, with unpaid amounts at the spouse's death payable to the spouse's estate or as otherwise designated by the spouse;
- (b) The Participant's surviving children and surviving issue of deceased children, such issue of deceased children taking by right of representation, equally; or
- (c) The Participant's estate.

ARTICLE VII- TERMS AND CONDITIONS

7.1 PARTICIPATION AGREEMENTS. Incentive Awards shall be evidenced by a Participation Agreement, which shall state the type of Incentive Award (whether Performance Cash Units, Performance Stock Units, or Other Award) granted to the Participant, the Performance Goals for Threshold, Target and Maximum levels of performance against which actual performance will be measured in order to determine the Incentive Payment, if any, to which the Participant is entitled, and shall incorporate by reference the terms of this Plan.

7.2 FORFEITURE OF INCENTIVE AWARDS A Participant who (i) is terminated for Cause, or (ii) who terminates employment with the Company before the conclusion of a Performance Period, for reasons other than Retirement, Disability or death, shall forfeit all Incentive Awards granted for that Performance Period.

ARTICLE VIII- CHANGES IN CAPITAL STRUCTURE

8.1 CAPITAL STRUCTURE CHANGES

- (a) If the outstanding shares of the Company's stock as a whole are increased, decreased, or changed into, or exchanged for, a different number or kind of securities of the Company, whether through merger, consolidation, reorganization, recapitalization, reclassification, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure, or the like, an appropriate and proportionate adjustment shall be made.
- (b) In the event of a change in the stock which is limited to a change in the designation thereof without increase or decrease in the number of issued shares, the shares resulting from any such change shall be deemed to be stock within the meaning of this Plan.
- (c) Adjustments under this Section shall be made by the Committee, whose determination as to what adjustment shall be made, and the extent thereof, shall be conclusive.

ARTICLE IX- COMPANY SUCCESSORS

9.1 IN GENERAL. If the Company shall be the surviving or resulting entity in any merger, sale of assets or sale of stock, consolidation, or corporate reorganization (including a reorganization in which the holders of stock receive securities of another entity), the Committee shall make such appropriate determinations and adjustments as it deems necessary so as to substantially preserve the rights and benefits of Participants under this Plan.

ARTICLE X- AMENDMENT OR TERMINATION OF PLAN

10.1 AMENDMENTS. The Company reserves the right to amend or modify, in whole or in part, any or all of the provisions of this Plan at any time by a written instrument; provided, however, that no amendment or modification shall be made which will deprive any Participant or any Participant's beneficiary of any benefit to which he or she is entitled under the Plan.

10.2 TERMINATION. Continuation of the Plan is not assumed as a contractual obligation of the Company and the right is reserved by the Company to at any time suspend or discontinue the Plan. However, no such suspension or discontinuance shall deprive any Participant or beneficiary of any benefit to which he or she is entitled under the Plan.

ARTICLE XI- CLAIMS PROCEDURE

11.1 CLAIMS PROCEDURE AND REVIEW. A Participant or beneficiary may make a claim for Plan benefits within the time and in the manner described herein. Such claim shall be made within 60 days after the claim arises by filing a written request with the Committee. The claim shall be reviewed by the Committee within a reasonable time after the receipt of the written claim. Notice of the Committee's decision shall be communicated to the claimant in writing. If the claim is denied, the notice shall include the specific reasons for the denial (including reference to pertinent Plan provisions), a description of any additional material or information necessary for the Committee to reconsider the claim, the reasons for any of such additional material or information, and an explanation of the review procedure.

11.2 APPEAL. The claimant or his or her duly authorized representative may, within 90 days after receiving such written notice, request the Board to review the Committee's decision. The Board shall afford the claimant a hearing and the opportunity to review all pertinent documents and submit issues and comments orally and in writing and shall render a review decision in writing within 120 days after receipt of request for review. The review proceeding shall be conducted in accordance with the rules and regulations adopted from time to time by the Board.

ARTICLE XII- MISCELLANEOUS PROVISIONS

12.1 TITLE TO ASSETS. No Participant or former Participant shall have any legal or equitable right or interest in any of the funds set aside by the Company or in any assets in which the Company may invest, from time to time, to fund this Plan.

12.2 ASSIGNMENT AND LEVY. The Plan is for the benefit and protection of the Participants and their beneficiaries and the rights, privileges and benefits herein conferred shall not, to the extent permitted by law, be subject to alienation, assignment, pledge, levy, attachment, garnishment or other legal process or in any manner anticipated, encumbered, committed, withdrawn or surrendered, and neither shall the same be subject or liable in any way for debts, contracts, or agreements or other claims of creditors of such Participants or their beneficiaries whether such claims are now contracted or which may hereafter be contracted or incurred.

12.3 PARTICIPANT'S RIGHTS. The establishment of this Plan shall not create any legal or equitable right against the Company unless such right is specifically provided for in this Plan. Furthermore, nothing in this Plan shall be construed as giving a Participant the right to be retained in the employment of the Company, and a Participant shall remain subject to discharge at any time to the same extent as if this Plan had not been adopted.

12.4 INCOMPETENCY. Every person receiving or claiming Incentive Payments under this Plan shall be conclusively presumed to be mentally competent until the date on which the Committee receives a written notice in a form and manner acceptable to the Committee that such person is incompetent and that a guardian, conservator or other person vested with the care of his or her estate has been appointed. In such event, the Committee may direct payments of Incentive Payments to such guardian, conservator or other person vested with the care of his or her estate and any such payments so made shall be a complete discharge of the Committee and the Company to the extent so made.

12.5 TAX WITHHOLDING. The Company shall have the right to deduct from all Incentive Payments any federal, state, local, or employment taxes which it deems are required by law to be withheld with respect to such Incentive Payments. At the request of a Participant, or as required by law, such sums as may be required for the payment of any estimated or accrued income tax liability may be withheld and paid over to the governmental entity entitled to receive the same.

12.6 GOVERNMENT AND OTHER REGULATIONS. The obligation of the Company to make payment of Incentive Payments shall be subject to all applicable laws, rules, and regulations and to such approvals by any government agencies as may be deemed necessary or appropriate by the Committee.

12.7 INDEMNIFICATION. Each person who is or who at any time serves as a member of the Committee or the Internal Compensation Committee shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit, or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under this Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit, or proceeding relating to the Plan. Each person covered by this indemnification shall give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend the same on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the charter or bylaws of the Company, as a matter of law, or otherwise, or any power that the Company may have to indemnify such person or hold such person harmless.

12.8 NOTICES. Notices required by this Plan to be given to the Company, the Committee or a Participant shall be in writing and shall be considered to have been duly given or served if personally delivered, or sent by first class, certified or registered mail.

12.9 SEVERABILITY. The invalidity or partial invalidity of any portion of this Plan shall not invalidate the remainder thereof, and said remainder shall remain in full force and effect.

12.10 RELEASE. Any payment to or for the benefit of any Participant or his or her beneficiaries in accordance with the provisions hereof shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Company.

12.11 GOVERNING LAW. All matters relating to this Plan or to Incentive Payments granted hereunder shall be governed by the laws of the State of Minnesota, without regard to the principles of conflict of laws thereof, except to the extent preempted by the laws of the United States.

12.12 ARBITRATION. All disputes and claims relating to any provision hereof shall be settled by submission for arbitration at the Minneapolis, Minnesota office of the American Arbitration Association, under the then current rules of the American Arbitration Association. The award and decision of the arbitrator shall be conclusive and binding upon all parties and judgment upon the award may be entered in any court of competent jurisdiction. The parties acknowledge and agree that any arbitration award may be enforced against them in any court of competent jurisdiction and each waives any right to contest the validity of such award.

12.13 RELATIONSHIP TO OTHER BENEFITS. No Incentive Payment under this Plan shall be taken into account in determining any benefits under the group life insurance plan, or long or short term disability plan of the Company, but shall be considered as compensation when paid under the Company's Section 401(k) plan and employee stock ownership plan.

12.14 EXPENSES. The expenses of implementing and administering this Plan shall be borne by the Company.

12.15 TITLES AND HEADINGS. The titles and headings of the Articles and Sections in this Plan are for convenience of reference only, and in the event of any conflict, the text of this Plan, rather than such titles or headings, shall control.

12.16 PRIOR AGREEMENTS; CONTROLLING DOCUMENT. This Plan shall replace and supersede any and all prior agreements relating to the Plan and participation in the future equity growth of the Company. Subject to the terms of the EIC Plan, this Plan shall otherwise constitute the controlling document with respect to all Plan matters.