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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2014**

OR

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

For the transition period from___________________ to ___________________

Commission File Number: 001-31588

COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-0957999 (Federal Employer Identification No.)
10900 Red Circle Drive, Minnetonka, MN (Address of principal executive offices)	55343 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined by Rule 12b-2 of the Exchange Act).

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Name of Exchange On Which Registered	Outstanding at August 1, 2014
Common Stock, par value $.05 per share	NASDAQ	8,645,125

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
C ONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30 2014	December 31 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,952,432	$ 20,059,120
Investments	5,876,551	5,742,314
Trade accounts receivable, less allowance for doubtful accounts of $53,000 and $69,000, respectively	19,166,945	22,902,323
Inventories	31,080,110	29,111,656
Prepaid income taxes	984,430	1,381,502
Other current assets	637,897	716,784
Deferred income taxes	3,482,739	3,758,750
TOTAL CURRENT ASSETS	76,181,104	83,672,449
PROPERTY, PLANT AND EQUIPMENT, net	16,255,766	14,941,492
OTHER ASSETS:		
Investments	10,624,217	3,920,978
Funded pension assets	136,221	305,028
Other assets	601,394	692,794
TOTAL OTHER ASSETS	11,361,832	4,918,800
TOTAL ASSETS	$ 103,798,702	103,532,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 506,669	$ 489,706
Accounts payable	7,031,207	4,894,869
Accrued compensation and benefits	3,555,628	3,927,728
Accrued consideration	—	558,801
Other accrued liabilities	1,901,293	1,765,428
Dividends payable	1,419,807	1,436,318
TOTAL CURRENT LIABILITIES	14,414,604	13,072,850
LONG TERM LIABILITIES:		
Uncertain tax positions	321,668	400,846
Deferred income taxes	811,768	809,179
Long-term debt - mortgage payable	370,175	627,823
TOTAL LONG-TERM LIABILITIES	1,503,611	1,837,848
COMMITMENTS AND CONTINGENCIES (Footnote 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share; 3,000,000 shares authorized; none issued		
Common stock, par value $.05 per share; 30,000,000 shares authorized; 8,641,853 and 8,553,320 shares issued and outstanding, respectively	432,093	427,666
Additional paid-in capital	37,963,961	37,110,671
Retained earnings	49,835,300	51,323,718
Accumulated other comprehensive loss	(350,867)	(240,012)
TOTAL STOCKHOLDERS' EQUITY	87,880,487	88,622,043
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 103,798,702	$ 103,532,741

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
C ONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Sales	$ 33,208,977	$ 31,936,602	$ 58,407,383	$ 59,389,333
Costs and expenses:				
Cost of sales	21,115,209	20,408,285	37,325,598	38,085,089
Selling, general and administrative expenses	9,688,247	8,961,467	18,690,358	18,366,616
Restructuring expense	—	—	237,838	
Total costs and expenses	30,803,456	29,369,752	56,253,794	56,451,705
Operating income	2,405,521	2,566,850	2,153,589	2,937,628
Other (expenses) and income :				
Investment and other income	28,065	34,852	34,024	122,142
(Loss)/gain on sale of assets	(141,870)	2,585	(136,131)	(44,677)
Interest and other expense	(16,391)	(26,457)	(41,046)	(55,843)
Other (expense) income, net	(130,196)	10,980	(143,153)	21,622
Income from operations before income taxes	2,275,325	2,577,830	2,010,436	2,959,250
Income tax expense	837,842	939,273	713,536	1,078,334
Net income	1,437,483	1,638,557	1,296,900	1,880,916
Other comprehensive loss, net of tax:				
Additional minimum pension liability adjustments	(91,447)	(259)	(178,790)	(206,074)
Unrealized gain/(loss) on available-for-sale securities	8,280	(18,468)	(14,610)	(30,546)
Foreign currency translation adjustment	55,994	3,482	82,545	(339,672)
Total other comprehensive loss	(27,173)	(15,245)	(110,855)	(576,292)
Comprehensive income	$ 1,410,310	$ 1,623,312	$ 1,186,045	$ 1,304,624
Basic net income per share:	$ 0.17	$ 0.19	$ 0.15	$ 0.22
Diluted net income per share:	$ 0.17	$ 0.19	$ 0.15	$ 0.22
Weighted Average Basic Shares Outstanding	8,621,387	8,537,369	8,593,561	8,512,091
Weighted Average Dilutive Shares Outstanding	8,644,505	8,540,965	8,616,858	8,518,223
Dividends declared per share	$ 0.16	$ 0.16	$ 0.32	$ 0.32

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
C ONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2013	8,553,320	$ 427,666	$ 37,110,671	$ 51,323,718	$ (240,012)	$ 88,622,043
Net loss				1,296,900		1,296,900
Issuance of common stock under Employee Stock Purchase Plan	6,574	329	78,823			79,152
Issuance of common stock to Employee Stock Ownership Plan	32,520	1,626	360,647			362,273
Issuance of common stock under Non-Employee Stock Option Plan	12,000	600	98,760			99,360
Issuance of common stock under Executive Stock Plan	37,633	1,882	0			1,882
Tax benefit from stock based payments			75,425			75,425
Share based compensation			240,485			240,485
Purchase of common stock	(194)	(10)	(850)	(1,301)		(2,161)
Shareholder dividends				(2,784,017)		(2,784,017)
Other comprehensive loss					(110,855)	(110,855)
BALANCE AT JUNE 30, 2014	8,641,853	$ 432,093	$ 37,963,961	$ 49,835,300	$ (350,867)	$ 87,880,487

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
C ONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,296,900	$ 1,880,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,143,272	1,058,654
Share based compensation	240,485	(50,702)
Deferred taxes	278,601	82,818
Change in fair value of acquisition-related contingent consideration	—	(342,834)
Loss on sale of assets	136,131	44,677
Excess tax benefit from share-based payments	(75,425)	(13,562)
Changes in assets and liabilities:		
Trade receivables	3,743,374	(6,543,186)
Inventories	(1,934,942)	(5,605,959)
Prepaid income taxes	397,360	2,126,336
Other assets	135,705	228,920
Accounts payable	2,079,869	(3,019,181)
Accrued compensation and benefits	(12,258)	340,746
Other accrued liabilities	127,808	248,973
Income taxes payable	(3,753)	284,445
Net cash provided by (used in) operating activities	7,553,127	(9,278,939)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,495,463)	(1,306,581)
Purchases of investments	(9,872,086)	(2,814,894)
Proceeds from the sale of fixed assets	15,993	36,184
Proceeds from the sale of investments	3,020,000	8,623,000
Net cash (used in) provided by investing activities	(9,331,556)	4,537,709
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(2,800,528)	(1,363,527)
Mortgage principal payments	(240,684)	(224,838)
Proceeds from issuance of common stock	180,394	206,413
Excess tax benefit from share-based payments	75,425	13,562
Payment of contingent consideration related to acquisition	(565,647)	(161,060)
Purchase of common stock	(2,161)	—
Net cash used in financing activities	(3,353,201)	(1,529,450)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	24,942	(68,810)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,106,688)	(6,339,490)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,059,120	17,869,712
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 14,952,432	$ 11,530,222
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid (refunded)	$ 30,763	$ (1,421,106)
Interest paid	41,046	53,733
Dividends declared not paid	1,419,807	1,363,795
Capital expenditures in accounts payable	50,871	—

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

COMMUNICATIONS SYSTEMS, INC.
N OTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Communications Systems, Inc. (herein collectively called “CSI” or the “Company”) is a Minnesota corporation organized in 1969 that operates primarily as a holding company conducting its business through three business units having operations in the United States, Costa Rica, the United Kingdom and China. Through its Suttle business unit, the Company is principally engaged in the manufacture and sale of copper and fiber connectivity systems, enclosure systems, and active technologies for voice, data and video communications. Through its Transition Networks business unit, the Company is engaged in the manufacture of of network interface devices, media converters, network interface cards, Ethernet switches and other connectivity products that offer the ability to affordably integrate the benefits of fiber optics into any data network. Through its JDL Technologies business unit, the Company provides technology solutions including virtualization, managed services, wired and wireless network design and implementation, HIPAA-compliant IT services, and converged infrastructure configuration and deployment.

Financial Statement Presentation

The condensed consolidated balance sheets and condensed consolidated statement of changes in stockholders’ equity as of June 30, 2014 and the related condensed consolidated statements of income and comprehensive income, and the condensed consolidated statements of cash flows for the periods ended June 30, 2014 and 2013 have been prepared by Company management. In the opinion of management, all adjustments (which include only normal recurring adjustments, except where noted) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2014 and 2013 and for the periods then ended have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. We recommend these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s December 31, 2013 Annual Report to Shareholders on Form 10-K. The results of operations for the periods ended June 30, 2014 are not necessarily indicative of operating results for the entire year.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions used in the accompanying condensed consolidated financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the time of the financial statements. Actual results could differ from those estimates.

Except to the extent updated or described below, the significant accounting policies set forth in Note 1 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, appropriately represent, in all material respects, the current status of accounting policies, and are incorporated herein by reference.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard is effective for our reporting year beginning January 1, 2017 and early adoption is not permitted. We are currently evaluating the impact, if any, this new accounting pronouncement will have on our financial statements.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive income, net of tax, are as follows:

	June 30 2014	December 31 2013
Foreign currency translation	$ (1,955,000)	$ (2,038,000)
Unrealized (loss)/gain on available-for-sale investments	(13,000)	2,000
Pension liability adjustment	1,617,000	1,796,000
	$ (351,000)	$ (240,000)

NOTE 2 – CASH EQUIVALENTS AND INVESTMENTS

The following tables show the Company's cash equivalents and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short and long term investments as of June 30, 2014 and December 31, 2013:

June 30, 2014

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 5,198,202	$ —	$ —	$ 5,198,202	$ 5,198,202	$	$
Subtotal	5,198,202	—	—	5,198,202	5,198,202	—	—
Investments:							
Certificates of deposit	5,969,139	1,315	(7,355)	5,963,099	—	2,881,947	3,081,152
Corporate Notes/Bonds	10,528,236	20,820	(11,387)	10,537,669	—	2,994,604	7,543,065
Subtotal	16,497,375	22,135	(18,742)	16,500,768	—	5,876,551	10,624,217
Total	$ 21,695,577	$ 22,135	$ (18,742)	$ 21,698,970	$ 5,198,202	$ 5,876,551	$ 10,624,217

	December 31, 2013						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 5,751,965	$ —	$ —	$ 5,751,965	$ 5,751,965	$	$
Subtotal	5,751,965	—	—	5,751,965	5,751,965	—	—
Investments:							
Certificates of deposit	4,024,031	687	(4,992)	4,019,726	239,904	2,582,502	1,197,320
Corporate Notes/Bonds	5,861,162	22,830	(522)	5,883,470	—	3,159,812	2,723,658
Subtotal	9,885,193	23,517	(5,514)	9,903,196	239,904	5,742,314	3,920,978
Total	$ 15,637,158	$ 23,517	$ (5,514)	$ 15,655,161	$ 5,991,869	$ 5,742,314	$ 3,920,978

The Company tests for other than temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments until it can recover the full principal amount and has the ability to do so based on other sources of liquidity. The Company expects these recoveries to occur prior to the contractual maturities. All unrealized losses as of June 30, 2014 were in a continuous unrealized loss position for less than twelve months and are not deemed to be other than temporarily impaired as of June 30, 2014.

The following table summarizes the estimated fair value of our investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of June 30, 2014:

	Amortized Cost	Estimated Market Value
Due within one year	$ 5,869,780	$ 5,876,551
Due after one year through five years	10,627,595	10,624,217
	$ 16,497,375	$ 16,500,768

The Company did not recognize any gross realized gains, and gross realized losses were immaterial, during the six-month periods ending June 30, 2014 and 2013, respectively. If the Company had realized gains or losses, they would be included within investment and other income in the accompanying consolidated results of operations.

Table of Contents

NOTE 3 - STOCK-BASED COMPENSATION

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP"), employees are able to acquire shares of common stock at 90% of the price at the end of each current quarterly plan term. The most recent term ended June 30, 2014. The ESPP is considered compensatory under current Internal Revenue Service rules. At June 30, 2014, after giving effect to the shares issued as of that date, 29,013 shares remain available for purchase under the ESPP.

2011 Executive Incentive Compensation Plan

On March 28, 2011 the Board adopted and on May 19, 2011 the Company's shareholders approved the Company's 2011 Executive Incentive Compensation Plan ("2011 Incentive Plan"). The 2011 Incentive Plan authorizes incentive awards to officers, key employees and non-employee directors in the form of options (incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, performance stock units ("deferred stock"), performance cash units, and other awards in stock, cash, or a combination of stock and cash. Up to 1,000,000 shares of our common stock may be issued pursuant to awards under the 2011 Incentive Plan.

During 2014, stock options covering 300,246 shares were awarded to key executive employees and directors, which options expire seven years from the date of award and vest 25% each year beginning one year after the date of award. The Company also granted deferred stock awards of 43,824 shares to key employees during 2014 under the Company's long-term incentive plan that vest over three years with the first vesting period at March 28, 2015.

At June 30, 2014, 279,768 shares remained available for future issuance under the 2011 Incentive Plan.

Stock Option Plan for Directors

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

No options were granted under the Director Plan in 2013 or 2014. The Director Plan was amended as of May 19, 2011 to prohibit option grants in 2011 and future years.

1992 Stock Plan

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

At June 30, 2014, after reserving for stock options and deferred stock awards granted in prior years and adjusting for forfeitures and issuances during the year, there were 60,598 shares reserved for issuance under the Stock Plan. The Company has not awarded stock options or deferred stock under this plan in 2013 or 2014.

Changes in Stock Options Outstanding

The following table summarizes changes in the number of outstanding stock options under the 2011 Incentive Plan, the Director Plan and Stock Plan over the period December 31, 2013 to June 30, 2014:

	Options	Weighted average exercise price per share	Weighted average remaining contractual term
Outstanding – December 31, 2013	309,439	$ 11.66	4.13
Awarded	300,246	12.27	
Exercised	(12,000)	8.28	
Forfeited	(70,563)	13.15	
Outstanding – June 30, 2014	527,122	11.88	5.57
Excercisable at June 30, 2014	208,135	$ 11.88	3.49
Expected to vest June 30, 2014	527,122	11.88	5.57

The aggregate intrinsic value of all options (the amount by which the market price of the stock on the last day of the period exceeded the market price of the stock on the date of grant) outstanding at June 30, 2014 was $312,000. The intrinsic value of all options exercised during the six months ended June 30, 2014 was $40,000. Net cash proceeds from the exercise of all stock options were $99,000 and $110,000 for the six months ended June 30, 2014 and 2013, respectively.

Changes in Deferred Stock Outstanding

The following table summarizes the changes in the number of deferred stock shares under the Stock Plan and 2011 Incentive Plan over the period December 31, 2013 to June 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2013	200,140	$ 11.47
Granted	48,824	12.52
Vested	(11,754)	14.97
Forfeited	(8,842)	10.82
Outstanding – June 30, 2014	228,368	11.54

Changes in Restricted Stock Units Outstanding

The following table summarizes the changes in the number of restricted stock units under the 2011 Incentive Plan over the period December 31, 2013 to June 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2013	53,193	$ 10.44
Granted	10,681	11.70
Vested	25,879	10.82
Forfeited	—	—
Outstanding – June 30, 2014	89,753	10.53

Compensation Expense

Share-based compensation expense recognized for the six-month period ended June 30, 2014 was $240,000 before income taxes and $156,000 after income taxes. Share-based compensation expense recognized for the six-month period ended June 30, 2013 was $ (51,000) before income taxes and $ (33,000) after income taxes. Unrecognized compensation expense for the Company's plans was $1,176,000 at June 30, 2014 and is expected to be recognized over a weighted-average period of 2.9 years. Excess tax benefits from the exercise of stock options and issuance of stock included in financing cash flows for the six month periods ended June 30, 2014 and 2013 were $75,000 and $14,000, respectively. Share-based compensation expense is recorded as a part of selling, general and administrative expenses.

NOTE 4 - INVENTORIES

Inventories summarized below are priced at the lower of first-in, first-out cost or market:

	June 30 2014	December 31 2013
Finished goods	$ 20,173,233	$ 18,733,636
Raw and processed materials	10,906,877	10,378,020
	$ 31,080,110	$ 29,111,656

NOTE 5 –INTANGIBLE ASSETS

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

	June 30, 2014			
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Trademarks	81,785	(35,424)	3,353	49,714
Customer relationships	490,707	(148,922)	20,121	361,906
Technology	228,996	(138,863)	9,390	99,523
	801,488	(323,209)	32,864	511,143

	December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Trademarks	81,785	(17,262)	(10,545)	53,978
Customer relationships	490,707	(72,500)	(43,105)	375,102
Technology	228,996	(67,667)	(42,066)	119,263
	801,488	(157,429)	(95,716)	548,343

Amortization expense on these identifiable intangible assets was $54,000 and $50,000 in 2014 and 2013, respectively. The amortization expense is included in selling, general and administrative expenses.

NOTE 6 – WARRANTY

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

The following table presents the changes in the Company's warranty liability for the six-month periods ended June 30, 2014 and 2013, respectively, the majority of which relates to a five-year obligation to provide for potential future liabilities for network equipment sales.

	2014	2013
Beginning balance	$ 564,000	$ 590,000
Amounts charged to expense	(10,000)	149,000
Actual warranty costs paid	(60,000)	(147,000)
Ending balance	$ 494,000	$ 592,000

NOTE 7 – CONTINGENCIES

In the ordinary course of business, the Company is exposed to legal actions and claims and incurs costs to defend against these actions and claims. Company management is not aware of any outstanding or pending legal actions or claims that could materially affect the Company's financial position or results of operations.

NOTE 8 – INCOME TAXES

In the preparation of the Company's consolidated financial statements, management calculates income taxes based upon the estimated effective rate applicable to operating results for the full fiscal year. This includes estimating the current tax liability as well as assessing differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recovered from future taxable income.

At June 30, 2014 there was $243,000 of net uncertain tax benefit positions that would reduce the effective income tax rate if recognized. The Company records interest and penalties related to income taxes as income tax expense in the Condensed Consolidated Statements of Income.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The tax years 2010-2012 remain open to examination by the Internal Revenue Service and the years 2009-2012 remain open to examination by various state tax departments. During the second quarter, the IRS completed an examination of our 2011 federal income tax return. There were no material changes to the return as filed. The tax years from 2010-2012 remain open in Costa Rica.

The Company’s effective income tax rate was 35.5% for the first six months of 2014. The effective tax rate differs from the federal tax rate of 35% due to state income taxes, foreign losses not deductible for U.S. income tax purposes, provisions for interest charges for uncertain income tax positions, and settlement of uncertain tax positions. The effect of the foreign operations is an overall rate increase of approximately 3.5% for the six months ended June 30, 2014. There were no additional uncertain tax positions identified in the first six months of 2014. The Company’s effective income tax rate for the six months ended June 30, 2013 was 36.4%, and differed from the federal tax rate due to state income taxes, foreign losses not deductible for U.S. income tax purposes, provisions for interest charges, and the effect of operations conducted in lower foreign tax rate jurisdictions.

NOTE 9 – SEGMENT INFORMATION

Effective January 1, 2014, the Company realigned the financial reporting for its business units. As a result of this realignment, all corporate general and administrative expenses that were previously categorized as “Other” are now included within the three business units as fully allocated costs. The Company classifies its businesses into three segments as follows:

- Suttle manufactures and markets copper and fiber connectivity systems, enclosure systems, xDSL filters and splitters, and active technologies for voice, data and video communications;
- Transition Networks manufactures network interface devices (NIDs), media converters, network interface cards (NICs), Ethernet switches and other connectivity products that offer the ability to affordably integrate the benefits of fiber optics into any data network; and
- JDL Technologies provides technology solutions including virtualization, managed services, wired and wireless network design and implementation, HIPAA-compliant IT services, and converged infrastructure configuration and deployment.

Management has chosen to organize the enterprise and disclose reportable segments based on our products and services. There are no material inter-segment revenues. In order to conform to the 2014 presentation, the Company has reclassified the previously non-allocated Corporate expenses within the business segments.

Information concerning the Company’s continuing operations in the various segments for the three and six-month periods ended June 30, 2014 and 2013 is as follows:

	Suttle	Transition Networks	JDL Technologies	Other	Total
Three Months Ended June 30, 2014					
Sales	$ 19,006,243	$ 11,567,320	$ 2,635,414	$ —	$ 33,208,977
Cost of sales	12,731,061	6,181,697	2,202,451	—	21,115,209
Gross profit	6,275,182	5,385,623	432,963	—	12,093,768
Selling, general and administrative expenses	3,358,171	5,609,011	721,065	—	9,688,247
Operating income (loss)	$ 2,917,011	$ (223,388)	$ (288,102)	$ —	$ 2,405,521
Depreciation and amortization	$ 314,797	$ 230,704	$ 37,149	$ —	$ 582,650
Capital expenditures	$ 1,294,590	$ 251,444	$ 8,260	$ 117,536	$ 1,671,830
Assets	$ 38,303,760	$ 27,507,378	$ 3,519,924	$ 34,467,640	$ 103,798,702

	Suttle	Transition Networks	JDL Technologies	Other	Total
Three Months Ended June 30, 2013					
Sales	$ 13,852,329	$ 10,461,771	$ 7,622,502	$ —	$ 31,936,602
Cost of sales	9,990,159	4,786,724	5,631,402	—	20,408,285
Gross profit	3,862,170	5,675,047	1,991,100	—	11,528,317
Selling, general and administrative expenses	2,726,835	5,571,975	662,657	—	8,961,467
Operating income (loss)	$ 1,135,335	$ 103,072	$ 1,328,443	$ —	$ 2,566,850
Depreciation and amortization	$ 275,969	$ 249,211	$ 47,681	$ —	$ 572,861
Capital expenditures	$ 274,380	$ 369,621	$ —	$ 183,451	$ 827,452
Assets	$ 27,557,698	$ 32,332,555	$ 18,835,913	$ 31,285,653	$ 110,011,819

	Suttle	Transition Networks	JDL Technologies	Other	Total
Six Months Ended June 30, 2014					
Sales	$ 31,888,574	$ 21,316,701	$ 5,202,108	$ —	$ 58,407,383
Cost of sales	22,123,196	11,224,667	3,977,735	—	37,325,598
Gross profit	9,765,378	10,092,034	1,224,373	—	21,081,785
Selling, general and administrative expenses	6,495,819	10,788,770	1,405,769	—	18,690,358
Restructuring expense		237,838	—		237,838
Operating income (loss)	$ 3,269,559	$ (934,574)	$ (181,396)	$ —	$ 2,153,589
Depreciation and amortization	$ 607,968	$ 461,418	$ 73,886	$ —	$ 1,143,272
Capital expenditures	$ 1,921,501	$ 358,857	$ 18,016	$ 197,089	$ 2,495,463

	Suttle	Transition Networks	JDL Technologies	Other	Total
Six Months Ended June 30, 2013					
Sales	$ 26,264,517	$ 21,274,892	$ 11,849,924	$ —	$ 59,389,333
Cost of sales	19,086,842	9,879,015	9,119,232	—	38,085,089
Gross profit	7,177,675	11,395,877	2,730,692	—	21,304,244
Selling, general and administrative expenses	5,355,078	11,616,634	1,394,904	—	18,366,616
Operating income (loss)	$ 1,822,597	$ (220,757)	$ 1,335,788	$ —	$ 2,937,628
Depreciation and amortization	$ 519,322	$ 460,165	$ 79,167	$ —	$ 1,058,654
Capital expenditures	$ 438,782	$ 500,975	$ 15,361	$ 351,463	$ 1,306,581

NOTE 10 – PENSIONS

The Company's U.K. based subsidiary Austin Taylor maintains defined benefit pension plans. The Company does not provide any other post-retirement benefits to its employees. Components of net periodic benefit cost of the pension plans for the three-months and six-months ended June 30, 2014 and 2013 were:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Service cost	$ 2,000	$ 64,000	$ 3,000	$ 129,000
Interest cost	40,000	58,000	79,000	115,000
Expected return on assets	(52,000)	(61,000)	(101,000)	(123,000)
Net periodic pension (benefit) cost	$ (10,000)	$ 61,000	$ (19,000)	$ 121,000

NOTE 11 – NET INCOME PER SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options and shares associated with the long-term incentive compensation plans, which resulted in a dilutive effect of 23,118 and 23,297 shares for the three and six-months ended 2014, respectively. The dilutive effect of stock options for the three and six-month periods ended June 30, 2013 was 3,596 shares and 6,132 shares, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Options totaling 202,897 were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2014 because the exercise price was greater than the average market price of common stock during the period and deferred stock awards totaling 171,544 shares were not included for the three and six month period ended June 30, 2014 because of unmet performance conditions. Options totaling 106,746 were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2013 because the exercise price was greater than the average market price of common stock during the period and deferred stock awards totaling 273,571 shares were not included for the three and six month period ended June 30, 2013 because of unmet performance conditions.

NOTE 12 – FAIR VALUE MEASUREMENTS

The accounting guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

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

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

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

Financial assets and liabilities measured at fair value as of June 30, 2014 and December 31, 2013, are summarized below:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 5,198,202	$ —	$ —	$ 5,198,202
Certificates of deposit		—		—
Subtotal	5,198,202	—	—	5,198,202
Short-term investments:				
Certificates of deposit	—	2,881,947	—	2,881,947
Corporate Notes/Bonds	—	2,994,604	—	2,994,604
Subtotal	—	5,876,551	—	5,876,551
Long-term investments:				
Certificates of deposit	—	3,081,152	—	3,081,152
Corporate Notes/Bonds	—	7,543,065	—	7,543,065
Subtotal	—	10,624,217	—	10,624,217
Total	$ 5,198,202	$ 16,500,768	$ —	$ 21,698,970

	December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 5,751,965	$ —	$ —	$ 5,751,965
Certificates of deposit		239,904		239,904
Subtotal	5,751,965	239,904	—	5,991,869
Short-term investments:				
Certificates of deposit	—	2,582,502	—	2,582,502
Corporate Notes/Bonds	—	3,159,812	—	3,159,812
Subtotal	—	5,742,314	—	5,742,314
Long-term investments:				
Certificates of deposit	—	1,197,320	—	1,197,320
Corporate Notes/Bonds	—	2,723,658	—	2,723,658
Subtotal	—	3,920,978	—	3,920,978
Current Liabilities:				
Accrued Consideration	—	—	(558,801)	(558,801)
Subtotal	—	—	(558,801)	(558,801)
Total	$ 5,751,965	$ 9,903,196	$ (558,801)	$ 15,096,360

The change in the estimated contingent consideration during the six months was due to $565,647 in payments and $6,846 in foreign currency gains.

We record transfers between levels of the fair value hierarchy, if necessary, at the end of the reporting period. There were no transfers between levels during the six months ended June 30, 2014.

NOTE 13 – RESTRUCTURING CHARGES

During the six-months ended June 30, 2014, the Company recorded $238,000 in restructuring expense. This consisted of severance and related benefits costs due to the restructuring within the Transition Networks business segment, including ongoing costs related to the closure of the China facility. The facility was completely closed in the second quarter of 2014. The Company paid $684,000 in restructuring charges during the first six months of 2014 and had $40,000 in restructuring accruals recorded in accrued compensation and benefits at June 30, 2014 that are expected to be paid during 2014.

NOTE 14 – SUBSEQUENT EVENTS

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

- Suttle manufactures and markets copper and fiber connectivity systems, enclosure systems, xDSL filters and splitters, and active technologies for voice, data and video communications under the Suttle brand in the United States and internationally;
- Transition Networks manufactures network interface devices (NIDs), media converters, network interface cards (NICs), Ethernet switches, and other connectivity products that offer customers the ability to affordably integrate fiber optics into any data network; and
- JDL Technologies provides technology solutions including virtualization, managed services, wired and wireless network design and implementation, HIPAA-compliant IT services, and converged infrastructure configuration and deployment.

Second Quarter 2014 Summary

- Consolidated sales rose 4% to $33.2 million from $31.9 million in Q2 2013.
  - Suttle sales grew 37% from Q2 2013
  - Transition Networks sales rose 11% from Q2 2013
  - JDL Technologies sales declined 65% from Q2 2013
- Gross profit improved to $12.1 million, or 36.4% of revenues, from $11.5 million, or 36.1% of revenues, in Q2 2013.
- Operating income was $2.4 million compared to $2.6 million in Q2 2013.
  - Suttle operating income grew $1.8 million to $2.9 million
  - Transition Networks declined $0.3 million to an operating loss of $0.2 million
  - JDL Technologies declined $1.6 million to an operating loss of $0.3 million
- Net income was $1.4 million, or $0.17 per diluted share, compared to net income of $1.6 million, or $0.19 per diluted share, in Q2 2013.
- At June 30, 2014, cash, cash equivalents, and investments were $31.5 million.

Forward-looking statements

In this report and, from time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, the Company may make “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 concerning possible or anticipated future financial performance, business activities, plans, pending claims, investigations or litigation which are typically preceded by the words “believes,” “expects,” “anticipates,” “intends” or similar expressions. For these forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. Shareholders and the investing public should understand that these forward-looking statements are subject to risks and uncertainties that could cause actual performance, activities, anticipated results, outcomes or plans to differ significantly from those indicated in the forward-looking statements. These risks and uncertainties include, but are not limited to:

General Risks and Uncertainties;

- The success of the holding company restructuring plan that we implemented in September 2013;
- the ability of the CSI parent to oversee the Company’s three operating units function in an efficient and cost-effective manner;
- the ability of our three business operating units to operate profitably; and
- the impact of changing economic circumstances on government expenditures in our markets.

Suttle Risks and Uncertainties:

- Suttle’s dependence upon its sales to major communication service providers and their continued investment and deployment into building out their networks;
- Suttle’s ability to continue to introduce and sell new G.hn products and FTTx (fiber-to-the-home or node) products; and
- the continued recovery of the housing market in the United States.

Transition Networks Risks and Uncertainties:

- The ability of Transition Networks to develop and introduce new products into new and existing markets at a level adequate to counter the decline from its traditional products and markets;
- Transition Networks’ ability to profitably penetrate certain international markets.

JDL Technologies Risks and Uncertainties:

- JDL’s ability to continue to obtain business from its traditional South Florida school districts;
- JDL’s ability to profitably expand outside its South Florida education market to small and medium sized commercial businesses; and
- JDL’s ability to establish and maintain a productive and efficient workforce in light of revenues that have fluctuated significantly from period to period, in part due to the uncertainty and timing of federal government funding of school initiatives.

In addition, the Company will discuss other factors from time to time in its filings with the Securities and Exchange Commission, including risk factors presented under Item 1A of the Company’s most recently filed annual report on Form 10-K or quarterly reports on Form 10-Q.

Company Results

Three Months Ended June 30, 2014 Compared to
Three Months Ended June 30, 2013

Consolidated sales increased 4% in 2014 to $33,209,000 compared to $31,937,000 in 2013. Consolidated operating income in 2014 decreased to $2,406,000 compared to $2,567,000 in the second quarter of 2013. Net income in 2014 decreased to $1,437,000 or $0.17 per share compared to $1,639,000 or $0.19 per share in the second quarter of 2013.

Method of Presentation

Effective January 1, 2014, the Company realigned the financial reporting for its business units to reflect its move to a holding company business structure that supports self-sustaining business units and to provide increased focus on opportunities to cut indirect corporate charges. As a result of this realignment, all corporate general and administrative expenses that were previously categorized as "Other" in Company financial statements are now included within the business unit level as fully allocated costs in this Form 10-Q. The Company has reclassified its 2013 results to conform to this new format.

Suttle Results

Suttle sales increased 37% in the second quarter of 2014 to $19,006,000 compared to $13,852,000 in the same period of 2013 due to revenue generated from new FTTx (fiber to the home or node) product platforms. Sales by customer groups in the second quarter of 2014 and 2013 were:

	Suttle Sales by Customer Group	
	2014	2013
Communication service providers	$ 15,964,000	$ 10,630,000
Distributors	1,573,000	1,580,000
International	1,314,000	1,536,000
Other	155,000	106,000
	$ 19,006,000	$ 13,852,000

Suttle's sales by product groups in second quarter of 2014 and 2013 were:

	Suttle Sales by Product Group	
	2014	2013
Modular connecting products	$ 3,176,000	$ 3,549,000
Structured cabling products	8,499,000	6,372,000
DSL products	1,811,000	2,369,000
FTTx products	5,363,000	510,000
Other products	157,000	1,052,000
	$ 19,006,000	$ 13,852,000

Sales to the major communication service providers increased 50% in 2014 due to growth in core high-speed copper connectivity products and success in securing new business in multiple FTTx domains. Sales to major communication service providers accounted for 84% of Suttle's sales in the second quarter of 2014 compared to 77% of sales in 2013. Sales to distributors remained flat in 2014. This customer segment accounted for 8% and 11% of sales in the second quarters of 2014 and 2013, respectively. International sales decreased 14% and accounted for 7% of Suttle's second quarter 2014 sales, due to a reduction in revenue from Austin Taylor legacy products, in part due to the Company's termination of a non-profitable OEM contract.

Sales of structured cabling products increased 33%. Sales of DSL products decreased 24% and modular connecting products sales decreased 11% due to shifts in technology.

Suttle's gross margin increased 62% in the second quarter of 2014 to $6,275,000 compared to $3,862,000 in the same period of 2013. Gross margin as a percentage of sales increased to 33% from 28% in the same period of 2013 due to the introduction of new FTTx products, focused value engineering and cost optimization efforts, and economies of scale. Selling, general and administrative expenses increased 23% to $3,358,000 in the second quarter of 2014 compared to $2,727,000 in the same period in 2013 due to investment and recruitment of expertise in sales, operations, technology, product management, and engineering. Suttle's operating income was $2,917,000 in the second quarter of 2014 compared to $1,135,000 in 2013.

Transition Networks Results

Transition Networks sales increased 11% to $11,567,000 in the second quarter of 2014 compared to $10,462,000 in 2013 due to increased activity in the North American and Rest of World markets. Transition Networks organizes its sales force by channel to market and segments its customers geographically. Second quarter sales by region are presented in the following table:

	Transition Networks Sales by Region	
	2014	2013
North America	$ 8,215,000	$ 7,332,000
Europe, Middle East, Africa ("EMEA")	1,115,000	1,257,000
Rest of World	2,237,000	1,873,000
	$ 11,567,000	$ 10,462,000

The following table summarizes Transition Networks' 2014 and 2013 second quarter sales by its major product groups:

	Transition Networks Sales by Product Group	
	2014	2013
Media converters	$ 7,181,000	$ 6,249,000
Ethernet switches	1,484,000	1,368,000
Ethernet adapters	958,000	796,000
Other products	1,944,000	2,049,000
	$ 11,567,000	$ 10,462,000

Sales in North America increased 12% or $883,000 due to improving conditions at key customers. International sales increased $222,000, or 7%, mainly due to increased sales in Latin America. Sales of media converters increased 15% or $932,000 due to several North and Latin America projects that closed in the quarter.

Gross margin on second quarter Transition Networks' sales decreased 5% to $5,386,000 in 2014 from $5,675,000 in 2013. Gross margin as a percentage of sales decreased to 47% in 2014 from 54% in 2013 due to unfavorable product mix and pricing pressure. Selling, general and administrative expenses increased 1% to $5,609,000 in 2014 compared to $5,572,000 in 2013 due to additional costs associated with the closing of our China facility. Operating loss was $223,000 in 2014 compared to operating income of $103,000 in 2013.

JDL Technologies, Inc. Results

JDL Technologies, Inc. sales decreased 65% to $2,635,000 in the second quarter of 2014 compared to $7,623,000 in 2013.

JDL's revenues by customer group were as follows:

	JDL Revenue by Customer Group	
	2014	2013
Broward County FL schools	$ 2,025,000	$ 3,205,000
Miami Dade County FL schools	0	3,970,000
All other	610,000	448,000
	$ 2,635,000	$ 7,623,000

Revenues earned from Broward County Public Schools, Florida decreased $1,180,000 or 37% in the second quarter of 2014 as compared to the 2013 second quarter due to the Federal government's decision to withhold all priority two E-Rate funding for the current fiscal year, which required the district to find alternate funding sources for planned projects. Revenues earned from Miami-Dade County Public Schools in the second quarter of 2013 are related to the district's "Bringing Wireless to the Classroom" initiative for which the district received federal funding under the E-Rate program to expand wireless connectivity for students and staff. This was completed in the first quarter of 2014. Revenue from JDL Technologies' sales to small and medium-sized commercial businesses (SMBs) increased by 36% to $610,000 as a result of an ongoing initiative to expand its reach in the South Florida commercial and healthcare markets.

Gross margin decreased 78% to $433,000 in the second quarter of 2014 compared to $1,991,000 in the same period in 2013. Gross margin as a percentage of sales decreased to 16% in 2014 from 26% in 2013 due to a change in the mix of revenue, with an increase in Broward Schools infrastructure sales, which have lower margins. Selling, general and administrative expenses increased 9% in 2014 to $721,000 compared to $663,000 in 2013. JDL Technologies reported an operating loss of $288,000 in the second quarter of 2014 compared to operating income of $1,328,000 in the same period of 2013.

Other

The Company's income before income taxes decreased to $2,275,000 in 2014 compared to $2,578,000 in 2013. The Company's effective income tax rate was 36.8% in 2014 and 36.4% in 2013. This effective tax rate differs from the federal tax rate of 35% due to state income taxes, foreign losses not deductible for U.S. income tax purposes, provisions for interest charges for uncertain income tax positions, and settlement of uncertain tax positions.

Six Months Ended June 30, 2014 Compared to
Six Months Ended June 30, 2013

Consolidated sales decreased 2% in 2014 to $58,407,000 compared to $59,389,000 in 2013. Consolidated operating income in 2014 decreased to $2,154,000 compared to $2,938,000 in the first six months of 2013. Net income in 2014 decreased to $1,297,000 or $0.15 per share compared to net income of $1,881,000 or $0.22 per share in the first six months of 2013.

Suttle Results

Suttle sales increased 21% in the first six months of 2014 to $31,889,000 compared to $26,265,000 in the same period of 2013 due to revenue generated from new FTTx (fiber to the home or node) product platforms. Sales by customer groups in the first six months of 2014 and 2013 were:

	Suttle Sales by Customer Group	
	2014	2013
Communication service providers	$ 26,722,000	$ 20,025,000
Distributors	3,013,000	3,157,000
International	1,992,000	2,849,000
Other	162,000	234,000
	$ 31,889,000	$ 26,265,000

Suttle's sales by product groups in first six months of 2014 and 2013 were:

	Suttle Sales by Product Group	
	2014	2013
Modular connecting products	$ 6,390,000	$ 6,899,000
Structured cabling products	15,775,000	12,076,000
DSL products	2,984,000	4,508,000
FTTx products	6,557,000	1,420,000
Other products	183,000	1,362,000
	$ 31,889,000	$ 26,265,000

Sales to the major communication service providers increased 33% in 2014 due to growth in core high-speed copper connectivity products and success in securing new business in multiple FTTx domains. Sales to major communication service providers accounted for 84% of Suttle's sales in the first six months of 2014 compared to 76% of sales in 2013. Sales to distributors decreased 5% in 2014. This customer segment accounted for 9% and 12% of sales in the first six months of 2014 and 2013, respectively. International sales decreased 30% and accounted for 6% of Suttle's first six months 2014 sales, due to a reduction in revenue from Austin Taylor legacy products, in part due to the Company's termination of a non-profitable OEM contract.

Sales of structured cabling products increased 31%. Sales of DSL products decreased 34% and modular connecting products sales decreased 7% due to shifts in technology.

Suttle's gross margin increased 36% in the first six months of 2014 to $9,765,000 compared to $7,178,000 in the same period of 2013. Gross margin as a percentage of sales increased to 31% from 27% in 2013 due to introduction of new FTTx products, focused value engineering and cost optimization efforts, and economies of scale. Selling, general and administrative expenses increased 21% to $6,496,000 in the first six months of 2014 compared to $5,355,000 in the same period in 2013 due to investment and recruitment of expertise in sales, operations, technology, product management, and engineering. Suttle's operating income was $3,270,000 in the first six months of 2014 compared to $1,823,000 in 2013.

Transition Networks Results

Transition Networks sales remained stable at $21,317,000 in the first six months of 2014 compared to $21,275,000 in 2013. Transition Networks organizes its sales force by channel to market and segments its customers geographically. First six months sales by region are presented in the following table:

	Transition Networks Sales by Region	
	2014	2013
North America	$ 15,112,000	$ 14,032,000
Europe, Middle East, Africa (“EMEA”)	2,321,000	2,753,000
Rest of World	3,884,000	4,490,000
	$ 21,317,000	$ 21,275,000

The following table summarizes Transition Networks’ 2014 and 2013 first six months sales by its major product groups:

	Transition Networks Sales by Product Group	
	2014	2013
Media converters	$ 13,443,000	$ 13,711,000
Ethernet switches	2,417,000	2,435,000
Ethernet adapters	1,797,000	1,525,000
Other products	3,660,000	3,604,000
	$ 21,317,000	$ 21,275,000

Sales in North America increased 8% or $1,080,000 due to increased sales into the Federal government channel. International sales decreased $1,038,000, or 14%, due mainly to a weaker first quarter of this year compared to last year, with several customers mainly in northern Europe. Sales of media converters decreased 2% or $268,000 due to continued competitive pressures and delays in new product introduction.

Gross margin on first six months Transition Networks’ sales decreased 11% to $10,092,000 in 2014 from $11,396,000 in 2013. Gross margin as a percentage of sales decreased to 47% in 2014 from 54% in 2013 due to unfavorable product mix and competitive prices. Selling, general and administrative expenses decreased 7% to $10,789,000 in the first half of 2014 compared to $11,617,000 in 2013 due to restructuring of certain go-to-market functions in the last three quarters of 2013 and higher ERP related expenses in the same period. Operating loss increased to $935,000 in 2014 compared to an operating loss of $221,000 in 2013, primarily as a result of a much weaker 2014 first quarter.

JDL Technologies, Inc. Results

JDL Technologies, Inc. sales decreased 56% to $5,202,000 in the first six months of 2014 compared to $11,850,000 in 2013.

Revenues by customer group were as follows:

	JDL Revenue by Customer Group	
	2014	2013
Broward County FL schools	$ 3,955,000	$ 3,901,000
Miami Dade County FL schools	99,000	7,138,000
All other	1,148,000	811,000
	$ 5,202,000	$ 11,850,000

Revenues earned through sales to Broward County Public Schools, increased $54,000 in the first six months of 2014 as compared to the 2013 first six months due to the combination of a multi-school network refresh initiative that started in late 2013 and was completed in the first quarter of 2014, along with several key network core infrastructure upgrades during the 2014 first quarter. Revenues earned through sales to Miami-Dade County Public Schools in the first six months of both 2014 and 2013 are related to the district's "Bringing Wireless to the Classroom" initiative for which the district received federal funding under the E-Rate program to expand wireless connectivity for students and staff. This was completed in the first quarter of 2014. Revenue from JDL Technologies' sales to small and medium sized commercial businesses (SMBs) increased by 42% or $337,000 as a result of continued successful marketing and sales efforts.

Gross margin decreased 55% to $1,224,000 in the first six months of 2014 compared to $2,731,000 in the same period in 2013. Gross margin as a percentage of sales increased to 24% in 2014 from 23% in 2013 reflecting the fact that a significant portion of its 2013 revenue was hardware-based, rather than the more traditional value-added service. Selling, general and administrative expenses remained flat in 2014 at $1,406,000 compared to $1,395,000 in 2013. JDL Technologies reported an operating loss of $181,000 in the first six months of 2014 compared to operating income of $1,336,000 in the same period of 2013.

Because federal and local funding for investments in IT infrastructure and services for K-12 schools varies substantially from year to year, JDL Technologies has experienced large swings in quarterly and annual revenues. We expect this volatility in revenues to continue in the balance of 2014 and future years. Based on recent indications from the federal government, we anticipate that the E-Rate program will be insufficiently funded to enable the Miami-Dade and Broward school districts to complete all the IT projects slated for 2014. While additional federal government funding may still materialize in 2014 and 2015, if it does not we may experience delay or cancellation of present or future wireless infrastructure projects in the districts. As previously reported, our 2013 results included approximately $23.0 million in revenue from a wireless connectivity project for the Miami- Dade County Public School district.

To reduce dependence on government funding, JDL Technologies continues to aggressively pursue opportunities to provide managed services, migration to the cloud, virtualization HIPAA-compliant IT services, and other network services to SMBs with a focus on healthcare, legal and financial services and logistics markets. As part of this initiative, JDL Technologies has adopted HIPAA standards that enable it to serve healthcare providers as a compliant Business Associate.

Other

The Company's income before income taxes decreased to $2,010,000 in 2014 compared to $2,959,000 in 2013. The Company's effective income tax rate was 35.5% in 2014 and 36.4% in 2013. This effective tax rate differs from the federal tax rate of 35% due to state income taxes, foreign losses not deductible for U.S. income tax purposes, provisions for interest charges for uncertain income tax positions, and settlement of uncertain tax positions. The effect of the foreign operations is an overall rate increase of approximately 3.5% in the first six months of 2014.

Liquidity and Capital Resources

As of June 30, 2014, the Company had approximately $31,453,000 in cash, cash equivalents and investments. Of this amount, $5,198,000 was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the FDIC or other government agency. These money market funds seek to preserve the value of the investment at $1.00 per share; however, it is possible to lose money investing in these funds. The remainder in cash and cash equivalents is operating cash and certificates of deposit which are fully insured through the FDIC. The Company also had $16,501,000 in investments consisting of certificates of deposit and corporate notes and bonds that are traded on the open market and are classified as available-for-sale at June 30, 2014.

The Company had working capital of $61,766,000, consisting of current assets of approximately $76,181,000 and current liabilities of $14,415,000 at June 30, 2014 compared to working capital of $70,599,000, consisting of current assets of $83,672,000 and current liabilities of $13,073,000 at December 31, 2013. The Company's working capital at June 30, 2014 decreased slightly from year-end due to the fact that the Company increased its ownership of long-term investments to $10,624,000 from $3,921,000.

Cash flow provided by operating activities was approximately $7,553,000 in the first six months of 2014 compared to $9,279,000 used in the same period of 2013. Significant working capital changes from December 31, 2013 to June 30, 2014 included a decrease in receivables of $3,743,000 due to the receipt of outstanding receivables at JDL Technologies related to the Miami Dade project primarily completed in 2013, partially offset by an increase in sales at Suttle during the quarter and an increase in Suttle-related inventory and related accounts payable.

Net cash used in investing activities was $9,332,000 in the first six months of 2014 compared to $4,538,000 provided in the same period of 2013. The Company continued to make capital investments and purchases of certificates of deposit and other marketable securities, moving more of its capital into longer term investments.

Net cash used by financing activities was $3,353,000 in the first six months of 2014 compared to $1,529,000 in the same period of 2013. The Company made $566,000 in contingent consideration payments related to the Patapsco acquisition. Cash dividends paid on common stock increased to $2,801,000 in 2014 ($0.32 per common share) from $1,364,000 in 2013 due to an accelerated payment of the dividend declared and paid in December 2012. Proceeds from common stock issuances, principally shares sold to the Company's Employee Stock Ownership Plan and under the Company's Employee Stock Purchase Plan, totaled approximately $180,000 in 2014 and $206,000 in 2013. The Company did not repurchase any shares in 2014 or 2013 under the Board authorized program. At June 30, 2014, Board of Director authority to purchase approximately 411,910 additional shares remained in effect. The Company acquired $2,000 and $0 in 2014 and 2013, respectively, of Company stock from employees in order to satisfy withholding tax obligations related to share-based compensation, pursuant to terms of Board and shareholder-approved compensation plans.

The Company has a $10,000,000 line of credit from Wells Fargo Bank. Interest on borrowings on the credit line is at LIBOR plus 1.1% (1.3% at June 30, 2014). There were no borrowings on the line of credit during the first six months of 2014 or 2013. The credit agreement expires October 31, 2014 and is secured by assets of the Company. The Company intends to renew the agreement in 2014.

In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

Enterprise Resource Planning

On April 4, 2013, our Transition Networks business unit and the parent Communications Systems, Inc. "went live" on a new Enterprise Resource Planning ("ERP") system. Due to the restructuring of the Company into a holding company structure with greater focus on our three operating business units, we are moving more deliberately to implement the new ERP system in the rest of the Company. We expect Suttle to adopt the new ERP system in 2015.

Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are discussed in our 2013 Form 10-K in Note 1 Summary of Significant Accounting Policies included in our Consolidated Financial Statements. There were no significant changes to our critical accounting policies during the six months ended June 30, 2014.

The Company's accounting policies have been consistently applied in all material respects and disclose such matters as allowance for doubtful accounts, sales returns, inventory valuation, warranty expense, income taxes, revenue recognition, asset impairment recognition and foreign currency translation. On an ongoing basis, we evaluate our estimates based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. Management reviews these estimates and judgments on an ongoing basis.

Recently Issued Accounting Pronouncements

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

Item 3. Q uantitative and Qualitative Disclosures about Market Risk.

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

The vast majority of our transactions are denominated in U.S. dollars; as such, fluctuations in foreign currency exchange rates have historically not been material to the Company. At June 30, 2014 our bank line of credit carried a variable interest rate based on LIBOR plus 1.1%.

Based on the Company's operations, in the opinion of management, no material future losses or exposure exist relative to market risk.

Item 4. C ontrols and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Not Applicable.

Item 1A. Risk Factors
Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	**(a) Total Number of Shares (or Units) Purchased**	**Average Price Paid per Share (or Unit)**	**Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(b) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
April 2014	—	$ —	—	411,910
May 2014	194	11.14	—	411,910
June 2014	—	—	—	411,910
Total	194	$ 11.14	—	411,910

(a) The shares in this column represent shares that were surrendered to us by plan participants to satisfy withholding tax obligations related to share-based compensation.

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

Item 3. Defaults Upon Senior Securities
Not Applicable.

Item 4. Mine Safety Disclosures
Not Applicable.

Item 5. Other Information
Not Applicable.

Item 6. Exhibits.

The following exhibits are included herein:

3.1 Communications Systems, Inc. Amended and Restated Articles of Incorporation, effective as of June 12, 2014.

3.2 Communications Systems, Inc. Amended and Restated Bylaws, effective as of June 12, 2014.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).

32. Certifications pursuant Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350).

99.1 Press Release dated August 6, 2014 announcing 2014 Second Quarter Results.

Table of Contents

S ignatures

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 thereto duly authorized.

		Communications Systems, Inc.
	By	/s/ Roger H.D. Lacey
		Roger H.D. Lacey
Date: August 7, 2014		Interim Chief Executive Officer
		/s/ Edwin C. Freeman
		Edwin C. Freeman
Date: August 7, 2014		Chief Financial Officer

Exhibit 3.1

**RESTATED ARTICLES OF INCORPORATION
OF COMMUNICATIONS-SYSTEMS, INC., AS AMENDED
(AS EFFECTIVE JUNE 12, 2014)**

RESOLVED, that the Articles of Incorporation of Communications Systems, Inc. be and the same hereby are restated to read as follows:

ARTICLE I.

The name of this corporation is COMMUNICATIONS SYSTEMS, INC.

ARTICLE II.

The corporation has general business purposes.

ARTICLE III.

The duration of this corporation shall be perpetual.

ARTICLE IV.

The location and post office address of its registered office in this state is 213 Main Street, Hector, Minnesota 55342.

ARTICLE V.

Capital Stock

The authorized capital stock of this corporation shall be Thirty Million (30,000,000) shares of Common Stock of the par value of five cents ($.05) per share (the "Common Stock") and Three Million (3,000,000) shares of Preferred Stock of the par value of One Dollar ($1.00) per share (the "Preferred Stock").

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions of the shares of each class of stock shall be as follows:

SECTION 1. *Preferred Stock*. The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more series. Subject to the provisions hereof and the limitations prescribed by law, the Board of Directors is expressly authorized, by adopting resolutions providing for the issuance of shares of any particular series and, if and to the extent from time to time required by law, by filing with the Minnesota Secretary of State a statement with respect to the adoption of the resolutions pursuant to the Minnesota Business Corporation Act (or other law hereafter in effect relating to the same or substantially similar subject matter), to establish the number of shares to be included in each such series and to fix the designation and relative powers, preferences and rights and the qualifications and limitations or restrictions thereof relating to the shares of each such series. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

(a) the distinctive serial designation of such series and the number of shares constituting such series, provided that the aggregate number of shares constituting all series of Preferred Stock shall not exceed Three Million (3,000,000);

(b) the annual dividend rate on shares of such series, if any, whether dividends shall be cumulative and, if so, from which date or dates;

(c) whether the shares of such series shall be redeemable and, if so, the terms and conditions of such redemption, including the date or dates upon and after which such shares shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(d) the obligation, if any, of the corporation to retire shares of such series pursuant to a sinking fund;

(e) whether shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes and, if so, the terms and conditions of such conversion or exchange, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;

(f) whether the shares of such series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(g) the rights of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation; and

(h) any other relative rights, powers, preferences, qualifications, limitations or restrictions thereof relating to such series.

The shares of Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall cumulate, if cumulative.

SECTION 2. *Common Stock.* Subject to all of the rights of the Preferred Stock, and except as may be expressly provided with respect to the Preferred stock herein, by law or by the Board of Directors pursuant to this Article V:

(a) dividends may be declared and paid or set apart for payment upon the Common Stock out of any assets or funds of the corporation legally available for the payment of dividends;

(b) the holders of Common Stock shall have the exclusive right to vote for the election of directors and on all other matters requiring stockholder action, each share being entitled to one vote; and

(c) upon the voluntary or involuntary liquidation, dissolution or winding up of the corporation, the net assets of the corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective share ownership.

ARTICLE VI.

Rights of Shareholders

(a) Pre-emptive Rights. No holder of any stock of the corporation shall have any pre-emptive right to subscribe for or purchase his proportionate share of any stock of the corporation, now or hereafter authorized, issued or reissued.

(b) Voting Rights. At each meeting of the shareholders, and with respect to any matter upon which the shareholders have a right to vote, each holder of record of shares of common stock shall be entitled to one vote for each share of common stock so held. No shareholder shall have the right to cumulate his voting for any purpose whatsoever.

ARTICLE VII.

Board of Directors

SECTION 1. The business and affairs of this corporation will be managed by or under the direction of a Board of Directors consisting of not less than three or more than twelve directors, the exact number of directors to be fixed from time to time by or pursuant to the Bylaws. Each director will serve until his or her successor has been duly elected and qualified, unless he or she retires, resigns, dies or is removed.

SECTION 2. Any vacancies occurring in the Board of Directors for any reason, and any newly created directorships resulting from an increase in the number of directors, may be filled by a majority of the directors then in office. Any directors so chosen will hold office until the next election of directors and until their successors are elected and qualified, subject, however, to prior retirement, resignation, death or removal from office.

SECTION 3. A majority of the directors then in office will constitute a quorum for the transaction of business, and if at any meeting of the Board of Directors there is less a quorum, a majority of those present may adjourn the meeting from time to time.

SECTION 4. Advance notice of nominations for the election of directors, other than by the Board of Directors or a committee thereof, must be given within the time and in the manner provided in the Bylaws.

ARTICLE VIII.

(a) Directors Action by Consent. An action required or permitted to be taken at a meeting of the Board of Directors may be taken by written action signed by the number of directors that would be required to take the same action at a meeting of the Board of Directors at which all Directors were present.

(b) Ratification by Shareholders. Any contract, act or transaction of the corporation or of the Directors may be ratified by a vote of a majority of the shares having voting powers at any meeting of shareholders, and such ratification shall, so far as permitted by law and by these Articles of Incorporation, be as valid and as binding as though ratified by every shareholder of the corporation.

ARTICLE IX.

Business Combinations

SECTION 1. In addition to any affirmative vote required by law or these Articles of Incorporation, and except as otherwise expressly provided in Section 2 of this Article IX, a Business Combination (as hereinafter defined) shall require the affirmative vote of not less than eighty percent (80%) of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock (as hereinafter defined), voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or by any other provision of these Articles of Incorporation or in any agreement with any national securities exchange or otherwise.

SECTION 2. The provisions of Section 1 of this Article IX shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law or by any other provision of these Articles of Incorporation or in any agreement with any national securities exchange or otherwise, if the conditions specified in either of the following paragraphs A or B are met:

A. The Business Combination shall have been approved by a majority of the Continuing Directors (as hereinafter defined).

B. All of the following conditions shall have been met:

(1) The aggregate amount of cash and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher amount determined under clauses (a) and (b) below:

(a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder (as hereinafter defined) for any share of Common Stock in connection with the acquisition by the Interested Shareholder of beneficial ownership of shares of Common Stock (i) within the two-year period immediately prior to the date of the first public announcement of the proposed Business Combination (the "Announcement Date") or (ii) in the transaction in which it became an Interested Shareholder, whichever is higher; and

(b) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (such latter date being referred to herein as the "Determination Date"), whichever is higher.

(2) The aggregate amount of cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of any class or series of outstanding Capital Stock (as hereinafter defined), other than Common Stock, shall be at least equal to the highest amount determined under clauses (a), (b) and (c) below:

(a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Shareholder for any share of such class or series of Capital Stock in connection with the acquisition by the Interested Shareholder of beneficial ownership of shares of such class or series of Capital Stock (i) within the two-year period immediately prior to the Announcement Date or (ii) in the transaction in which it became an Interested Shareholder, whichever is higher;

(b) the Fair Market Value per share of such class or series of Capital Stock on the Announcement Date or on the Determination Date, whichever is higher; and

(c) (if applicable) the highest preferential amount per share to which the holders of stock would be entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation, regardless of whether the Business Combination to be consummated constitutes such an event.

The provisions of this paragraph B(2) shall be required to be met with respect to every class or series of outstanding Capital Stock, whether or not the Interested Shareholder has previously acquired beneficial ownership of any shares of a particular class or series of Capital Stock.

(3) The consideration to be received by holders of a particular class or series of outstanding Capital Stock shall be in cash or in the same form as previously has been paid by or on behalf of the Interested Shareholder in connection with its direct or indirect acquisition of beneficial ownership of shares of such class or series of Capital Stock. If the consideration so paid for shares of any class or series of Capital Stock varied as to form, the form of consideration for such class or series of Capital Stock shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class or series of Capital Stock previously acquired by the Interested Shareholder. The price determined in accordance with paragraphs B(1) and B(2) of Section 2 of this Article IX shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares or similar event.

(4) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination: (a) there shall have been no failures to declare and pay at the regular date therefore any full quarterly dividends (whether or not cumulative) payable in accordance with the terms of any outstanding Capital Stock having a preference over the Common Stock as to dividends, or upon liquidation, except as approved by a majority of the Continuing Directors; (b) there shall have been no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any stock dividend, stock split, combination of shares or similar event), except as approved by a majority of the Continuing Directors; (c) there shall have been an increase in the annual rate of dividends paid on the Common Stock as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction that has the effect of reducing the number of outstanding shares of Common Stock, unless the failure to increase such annual rate is approved by a majority of the Continuing Directors; and (iv) except as approved by a majority of the Continuing Directors, such Interested Shareholder shall not have become the beneficial owner of any additional shares of Capital Stock except as part of the transaction that results in such Interested Shareholder becoming an Interested Shareholder and except in the transaction that, after giving effect thereto, would not result in any increase in the Interested Shareholder's percentage beneficial ownership of any class or series of Capital Stock.

(5) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder of the corporation), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(6) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to all shareholders of the corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to the Act or subsequent provisions). The proxy or information statement shall contain on the first page thereof, in a prominent place, any statement as to the advisability (or inadvisability) of the Business Combination that a majority of the Continuing Directors may choose to make and, if deemed advisable by a majority of the Continuing Directors as to the fairness (or lack of fairness) of the terms of the Business Combination from a financial point of view to the holders of the outstanding shares of Capital Stock other than the Interested Shareholder and its Affiliates (as hereinafter defined) or Associates (as hereinafter defined).

(7) Such Interested Shareholder shall not have made or caused to be made any major change in the corporation's business or equity capital structure without the approval of a majority of the Continuing Directors.

SECTION 3. In addition to any affirmative vote required by law or these Articles of Incorporation, the following shall require the affirmative vote of not less than two thirds (1/2) of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock, voting together as a single class: (a) any sale, lease, mortgage, pledge, transfer, exchange or other disposition of all or substantially all of the property and assets of the corporation to any person; (b) any reclassification of securities (including any combination of shares or reverse stock split), or recapitalization or reorganization of the corporation, or any merger, consolidation or statutory exchange of shares of the corporation or any Subsidiary with any other corporation (other than a merger of a wholly owned Subsidiary of the corporation into the corporation or the merger of two or more wholly owned Subsidiaries of the corporation; (c) the adoption of plan or proposal for the liquidation or dissolution of the corporation; and (d) any agreement, contract or other arrangement or understanding providing for one or more of the foregoing.

SECTION 4. For the purpose of this Article IX:

A. The term “Business Combination” shall mean:

(1) any merger; consolidation or statutory exchange of shares of the corporation or any Subsidiary (as hereinafter defined) with (a) any Interested Shareholder of (b) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger, consolidation or statutory share exchange would be, an Affiliate or Associate of an Interested Shareholder; provided, however, that the foregoing shall not include the merger of a wholly owned Subsidiary of the corporation into the corporation or the merger of two or more wholly owned Subsidiaries of the corporation; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with an Interested Shareholder or any Affiliate or Associate of any Interested Shareholder of any assets of the corporation or any Subsidiary equal to or greater than ten percent (10%) of the book value of the consolidated assets of the corporation; or

(3) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with the corporation or any Subsidiary of any assets of any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder equal to or greater than ten percent (10%) of the book value of the consolidated assets of the corporation; or

(4) the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) to any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder of any securities of the corporation (except pursuant to stock dividends, stock splits, or similar transactions which would not have the effect, directly or indirectly, of increasing the proportionate share of any class or series of Capital Stock, or any securities convertible into Capital Stock or into equity securities of any Subsidiary, that is beneficially owned by any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder) or of any securities of a Subsidiary (except pursuant to a pro rata distribution to all holders of Common Stock of the corporation); or

(5) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Shareholder or any Affiliate or Associate of any Interested Shareholder; or

(6) any transaction (whether or not with or otherwise involving an Interested Shareholder) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of Capital Stock, or any securities convertible into Capital Stock or into equity securities of any Subsidiary, that is beneficially owned by any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder, including, without limitation, any reclassification of securities (including any reverse stock split), or recapitalization of the corporation, or any merger, consolidation or statutory exchange of shares of the corporation with any of its Subsidiaries; or

(7) any agreement, contract or other arrangement or understanding providing for any one or more of the actions specified in the foregoing clauses (1) to (6).

B. The term “Capital Stock” shall mean all capital stock of the corporation authorized to be issued from time to time under Article V of these Articles of Incorporation. The term “Voting Stock” shall mean all Capital Stock of the corporation entitled to vote generally in the election of directors of the corporation.

C. The term “person” shall mean any individual, firm, corporation or other entity and shall include any group comprised of any person and any other person or persons with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Capital Stock.

D. The term “Interested Shareholder” shall mean any person (other than the corporation or any Subsidiary and other than any profit sharing, employee stock ownership or other employee benefit plan of the corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (1) is the beneficial owner of Voting Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock; or (2) is an Affiliate or Associate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of Voting Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock; or (3) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by an Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

E. A person shall be a "beneficial owner" of any Capital Stock (1) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (2) which such person or any of its Affiliates or Associates has, directly or indirectly, (a) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding, or (c) the right to dispose or direct the disposition of, pursuant to any agreement, arrangement or understanding; or (3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, of acquiring, holding, voting or disposing of any shares of Capital Stock. For the purposes of determining whether a person is an Interested Shareholder pursuant to paragraph D of this Section 4, the number of shares of Capital Stock deemed to be outstanding shall include shares deemed beneficially owned by such person through application of this paragraph E, but shall not include any other shares of Capital Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, exchange rights, warrants or options, or otherwise.

F. The term "Affiliate," used to indicate a relationship with a specified person, shall mean a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified person. The term "Associate," used to indicate a relationship with a specified person, shall mean (1) any person (other than the corporation or a Subsidiary) of whom such specified person is an officer or partner or is, directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of equity securities, (2) any trust or other estate in which such specified person has a substantial beneficial interest or as to which such specified person serves as trustee or in a similar fiduciary capacity, (3) any relative or spouse of such specified person or any relative of such spouse, who has the same home as such specified person or who is a director or officer of the corporation or any Subsidiary, and (4) any person who is a director or officer of such specified person or any of its parents or subsidiaries (other than the corporation or a Subsidiary).

G. The term "Subsidiary" shall mean any corporation of which a majority of any class of equity security is beneficially owned, directly or indirectly, by the corporation; provided, however, that for the purposes of paragraph D of this Section 4, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is beneficially owned, directly or indirectly, by the corporation.

H. The term "Continuing Director" shall mean any member of the Board of Directors of the corporation, while such person is a member of the Board of Directors, who was a member of the Board of Directors prior to the time that the Interested Shareholder involved in the Business Combination in question became an Interested Shareholder, and any member of the Board of Directors, while such person is a member of the Board of Directors, whose election, or nomination for election by the corporation's shareholders was approved by a vote of a majority of the Continuing Directors; provided, however, that in no event shall an Interested Shareholder involved in the Business Combination in question or any Affiliate, Associate or representative of such Interested Shareholder, be deemed to be a Continuing Director.

I. The term “Fair Market Value” shall mean (1) in the case of cash, the amount of such cash; (2) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, of if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sale or closing bid quotation (whichever is applicable) with respect to a share of such stock during the 30-day period immediately preceding the date in question of a share of such stock on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotations are available, the Fair Market Value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (3) in the case of property other than cash or stock, the Fair Market Value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

J. In the event of any Business Combination in which the corporation survives, the phrase “consideration other than cash to be received” as used in paragraphs B(1) and B(2) of Section 2 of this Article IX shall include the shares of Common Stock and/or the shares of any other class or series of Capital Stock retained by the holders of such shares.

SECTION 5. The Continuing Directors by majority vote shall have the power to determine for the purposes of this Article IX, on the basis of information known to them after reasonable inquiry, (a) whether a person is an Interested Shareholder, (b) the number of shares of Capital Stock (including Voting Stock) or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another, (d) whether the assets which are the subject of any Business Combination equal or exceed ten percent (10%) of the book value of the consolidated assets of the corporation, (e) whether a proposed plan of dissolution or liquidation is proposed by or on behalf of an Interested Shareholder or any Affiliate or Associate of any Interested Shareholder, (f) whether any transaction has the effect, directly or indirectly, of increasing the proportionate share of any class or series of Capital Stock, or any securities convertible into Capital Stock or into equity securities of any Subsidiary, that is beneficially owned by an Interested Shareholder or any Affiliate or Associate of an Interested Shareholder, (g) whether any Business Combination satisfies the conditions set forth in paragraph B of Section 2 of this Article IX, and (h) such other matters with respect to which a determination is required under this Article IX. Any such determination made in good faith shall be binding and conclusive on all parties.

SECTION 6. Nothing contained in this Article IX shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

SECTION 7. The fact that any Business Combination complies with the provisions of Section 2 of this Article IX shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, or the Continuing Directors, or any of them, to approve such Business Combination or recommend its adoption or approval to the shareholders of the corporation, nor shall such compliance limit, or otherwise restrict in any manner the Board of Directors, or any member thereof, or the Continuing Directors, or any of them, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

SECTION 8. Notwithstanding anything to the contrary in these Articles of Incorporation (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law or these Articles of Incorporation), the affirmative vote of the holders of at least two-thirds (⅔) of the voting power of all shares of Capital Stock of this corporation entitled to vote generally in the election of directors shall be required to alter, amend, repeal or adopt any provision inconsistent with Section 3 of this Article IX and the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all shares of Capital Stock of this corporation entitled to vote generally in the election of directors shall be required to alter, amend, repeal or adopt any provision inconsistent with the remaining sections of this Article IX.

ARTICLE X.

Bylaws

SECTION 1. Except as otherwise provided in Section 2 of this Article X, Bylaws may be adopted, altered, amended or repealed or new Bylaws enacted by the affirmative vote of a majority of the entire Board of Directors (if notice thereof is contained in the notice of the meeting at which such vote is taken or if all directors are present) or at any regular meeting of the shareholders (or at any special meeting thereof duly called for that purpose) by the affirmative vote of a majority of the shares represented and entitled to vote at such meeting (if notice thereof is contained in the notice of such meeting.)

SECTION 2. Notwithstanding anything contained in Section 1 of this Article X to the contrary, either (i) the affirmative vote of the holders of at least eighty percent (80%) of the votes entitled to be cast by the holders of all shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, or (ii) the affirmative vote of a majority of the entire Board of Directors with the concurring vote of a majority of the Continuing Directors, voting separately and as a subclass of directors, shall be required to alter, amend or repeal, or adopt any Bylaw provision inconsistent with any Bylaw relating to procedures for advance notice of nominations for election to the Board of Directors (other than by the Board of Directors or committee thereof) or procedures for advance notice to the Board of Directors of business to be brought before an annual meeting of shareholders of the Company. For purposes of this Article X, the term “Continuing Director” shall mean any member of the Board of Directors who was a member of the Board of Directors on February 24, 1986 or who is elected to the Board of Directors after February 24, 1986 upon the recommendation of a majority of Continuing Directors, voting separately and as a subclass of directors on such recommendation.

SECTION 3. Notwithstanding anything to the contrary in these Articles of Incorporation (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law or these Articles of Incorporation), the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all shares of Capital Stock of this corporation entitled to vote generally in the election of directors shall be required to alter, amend or repeal Section 2 or this Section 3 of this Article X or to adopt as part of these Articles of Incorporation any provision inconsistent with Section 2 or this Section 3 of this Article X.

ARTICLE XI.

Amendment of Articles of Incorporation

Except as otherwise provided in Articles VII, IX and X, the Articles of Incorporation of this corporation may be amended, altered, changed or repealed by the affirmative vote of the holders of at least a majority of the voting power of all shares of Capital Stock of this corporation entitled to vote generally in the election of directors, or such greater percentage as may otherwise be prescribed by the laws of Minnesota.

ARTICLE XII.

No director of this Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for a breach of fiduciary duty as a director; provided, however, that this Article XII shall not limit or eliminate the liability of a director to the extent provided by applicable law (i) for breach of the director’s duty of loyalty to the Corporation or its shareholders; (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) for violations of sections 302A.559 or 80A.23 of the Minnesota Statutes; (iv) for any transaction from which the director derived any improper personal benefit; or (v) for any act or omission occurring prior to the date when this provision becomes effective.

The provisions of this Article shall not be deemed to limit or preclude indemnification of a director by the corporation for any liability of a director which has not been eliminated by the provisions of this Article.

If the Minnesota Statutes hereafter are amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the corporation, in addition to the limitation on personal liability provided herein, shall be eliminated or limited to the fullest extent permitted by the Minnesota Statutes as so amended.

Any amendment or repeal of this Article XII shall be prospective only and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

Exhibit 3.2

RESTATED BYLAWS
OF
COMMUNICATIONS SYSTEMS, INC.,
AS AMENDED
(June 12, 2014)

ARTICLE 1.

Offices and Corporate Seal

1.1) Offices. The principal office of the corporation shall be located at Hector, Minnesota and the corporation may have offices at such other places within or without the State of Minnesota as the Board of Directors shall from time to time determine or the business of the corporation requires.

1.2) Seal. The corporation shall have such corporate seal or no corporate seal as the Board of Directors shall from time to time determine.

ARTICLE 2.

Meetings of Shareholders

2.1) Regular Meeting. A regular meeting of the shareholders of the corporation entitled to vote may be held at the principal office of the corporation or at such other place, within or without the State of Minnesota, as is designated by the Board of Directors, or by written consent of all the shareholders entitled to vote thereat, at such time or times as may be designated by the Board of Directors or, if the Board shall fail to designate a time for such meeting for any consecutive period of fifteen (15) months it shall cause such regular meeting to be called within 90 days of receipt of the written demand of any shareholder owning one percent (1%) or more of all voting shares of the corporation. At the meeting, the shareholders, voting as provided in the Articles of Incorporation, shall elect directors and shall transact such other business as shall properly come before the meeting.

2.2) Special Meetings. Special meetings of the shareholders entitled to vote shall be called by the Chief Executive Officer, the Chief Financial Officer, any two (2) or more directors, or upon request by shareholders holding ten percent (10%) or more of the voting power of the shareholders.

2.3) Notice of Meetings. There shall be mailed to each shareholder entitled to vote, at his address as shown by the books of the corporation, a notice setting out the place, date and hour of the regular meeting or any special meeting, which notice shall be mailed at least ten (10) but not more than sixty (60) days prior to the date of the meeting. Notice of any special meeting shall state the purpose or purposes of the proposed meeting, and the business transacted at all special meetings shall be confined to purposes stated in the notice. Attendance at a meeting by any shareholder, without objection at the beginning of such meeting by him as to the transaction of business because the meeting is not lawfully convened or that the item may not lawfully be considered shall constitute his waiver of notice of the meeting.

2.4) Quorum and Adjourned Meetings. The holders of a majority of all shares outstanding and entitled to vote, represented either in person or by proxy, shall constitute a quorum for the transaction of business at any regular or special meeting of the shareholders. In case a quorum is not present at the regular or special meeting, those present shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite number of voting shares shall be represented. At such adjourned meetings at which the required amount of voting shares shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If a quorum is present when a duly called or held meeting is convened, shareholders present may transact business despite later absence of a quorum at such meeting.

2.5) Voting. At each meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy duly appointed by an instrument in writing subscribed by such shareholder. Each shareholder shall have one (1) vote for each share having voting power standing in his name on the books of the corporation, except as may be otherwise provided by the Articles or the terms of such shares. Upon the demand of any shareholder, the vote for directors or the vote upon any question before the meeting shall be by ballot. All elections shall be had and all questions decided by a majority vote of the number of shares entitled to vote and represented at any meeting at which there is a quorum except in such cases as shall otherwise be required by statute, the Articles of Incorporation or these Bylaws. Except as may otherwise be required to conform to cumulative voting procedures, directors shall be elected by a plurality of the votes cast by holders of shares entitled to vote thereon.

2.6) Closing of Books. The Board of Directors may fix a time, not exceeding sixty (60) days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of and to vote at such meeting, notwithstanding any transfer of any shares on the books of the corporation after any record date so fixed. The setting of the record date shall not suspend or limit transfers of shares between the record date and the date of the shareholders' meeting.

2.7) Order of Business. The suggested order of business at meetings of the shareholders, shall, unless modified by the presiding chairman, be:

(a) Call of roll

(b) Proof of the due notice of meeting or waiver of notice

(c) Determination of existence of quorum

(d) Reading and disposal of any unapproved minutes

(e) Annual reports of officers and committees

(f) Election of directors

(g) Unfinished business

(h) New business

(i) Adjournment

2.8) Voting Shares by Organizations and Legal Representatives. Shares registered in the name of a corporation may be voted by the chief executive officer or other legal representative of the corporation. Shares of a corporation registered in the name of a subsidiary are not entitled to vote except to the extent the same are held in a fiduciary capacity and the settlor or beneficial owner votes or gives binding instructions on how to vote. Shares registered in the name of a trustee may be voted by the trustee if registered in his name. Shares held by a personal representative, administrator, executor, guardian, conservator or attorney-in-fact may be voted without registration in his name. Pledged shares may be voted by the pledgor until registered in the name of the pledgee.

2.9) Business to be Conducted at Annual Meetings At the annual meeting, the shareholders shall elect directors of the corporation and shall transact such other business as may properly come before them. To be properly brought before the meeting, business must be of a nature that is appropriate for consideration at an annual meeting and must be (i) specified in the notice of meeting (or any supplement thereto) or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for matters to be properly brought before the annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, each such notice must be given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation, not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. Each such notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of record of the shareholders proposing such business, (iii) the class or series (if any) and number of shares of the corporation which are owned by the shareholder, and (iv) any material interest of the shareholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be transacted at the annual meeting except in accordance with the procedures set forth in this Article; provided, however, that nothing in this Article shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting, in accordance with these Bylaws.

2.10) Nominations and Proposals by the Board of Directors. At any meeting of shareholders, if a nomination for election of one or more individuals to the Board of Directors is a recommendation of the Board of Directors or if a proposal is made by the Board for consideration and action by shareholders, it shall not be necessary to "move" and "second" such nominations and proposals before they can be considered at a shareholder meeting, and, after the opportunity for discussion and questions, such nominations and proposals may be acted upon by the shareholders present in person or by proxy."

ARTICLE 3.

Directors

3.1) General Purposes; Chairman. The business and affairs of the corporation shall be managed by or shall be under the direction of the Board of Directors. The Board of Directors, in its discretion, may elect a Chairman of the Board of Directors, who, when present, shall preside at all meetings of the Board of Directors, and who shall have such powers as the Board shall prescribe.

3.2) Number of Directors. The number of directors that constitute the whole Board of Directors will be fixed from time to time by resolution of the entire Board of Directors then holding office. The number of directors may be increased or, subject to Minn. Stat. Section 302A.223, decreased at any time by resolution of the entire Board of Directors then holding office, subject to any limitation otherwise specified in these bylaws or in the Company's Articles of Incorporation, as the same may be from time to time amended. Each of the duly elected directors shall hold office until the annual meeting of shareholders next held after his or her election or re-election to the Board, until his or her successor shall have been duly elected and qualified, or until he or she shall retire, resign, die or be removed. Notwithstanding any other provision of this Article 3, and except as otherwise provided by law, whenever the holders of any one or more class or series of common or preferred stock shall have the right, voting separately as a class or series, to elect one or more directors of this corporation, the term of office, the filling of vacancies and other features of such directorships shall be governed by the terms of the Articles of Incorporation applicable thereto and such directors so elected shall not be classified pursuant to this Article 3 unless expressly provided by such terms.

3.3) Enlargement of Class. The number of directors to comprise any class may be increased by action of a majority of the directors then in office, provided the number of directors in each of the classes shall be maintained as nearly equal in number as possible.

3.4) Vacancies. Any vacancies occurring in the Board of Directors for any reason, and any newly created directorships resulting from an increase in the number of directors, may be filled by a majority of the directors then in office. Any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified, subject, however, to prior retirement, resignation, death or removal from office. Any newly created directorships resulting from an increase in the authorized number of directors shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal in number as possible.

3.5) Quorum. A majority of the directors then in office shall constitute a quorum for the transaction of business, and if at any meeting of the Board of Directors there shall be less than said quorum, a majority of those present may adjourn the meeting from time to time.

3.6) Removal of Directors. Any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the then outstanding shares of Capital Stock entitled to vole generally in the election of directors.

3.7) Director Nominations. Subject to the rights of holders of any class or series of stock having a preference over the common shares as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote generally in the election of directors. However, any shareholder entitled to vote generally in the election of directors may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the corporation not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. Nominations for election of one or more persons as directors at a special meeting must be provided by written notice pursuant to Minnesota Statutes, Section 302A.433, Subd. 2. Each such corresponding notice to the Secretary shall set forth: (i) the name and address of record of the shareholder who intends to make the nomination; (ii) a representation that the shareholder is a holder of record of shares of the corporation entitled to vote at such meeting and the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee; (iv) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (v) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (vi) the consent of each nominee to serve as a director of the corporation if so elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. Copies of any preliminary proxy materials or other filings with the Securities and Exchange Commission made by the nominating shareholder must be provided to the Secretary of the corporation concurrent with such filing. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, it shall be so declared at the meeting and the defective nomination shall be disregarded.

3.8) Regular Meetings. Regular meetings of the Board of Directors shall be held, without notice, at such time and place as shall from time to time be determined by the Board.

3.9) Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President at any time and shall be called by him or her whenever requested to do so in writing by two members of the Board.

3.10) Notice of Meetings. If the meeting is a regular meeting of the Board, or if the date and time of a Board meeting has been announced at a previous meeting, no notice is required. Otherwise, notice of a meeting of the Board of Directors shall be given by the Secretary who shall give at least seventy-two (72) hours' notice thereof to each director by mail, telephone, telegraph or in person. The notice need not state the purpose of the meeting.

3.11) Waiver of Notice. Notice of any meeting of the Board of Directors may be waived by a director either before, at, or after such meeting in a writing signed by such director; provided, however, that a director, by his attendance and participation in any action taken at the meeting of the Board of Directors, shall be deemed to waive notice of such meeting.

3.12) Committees of the Board. The Board of Directors may, in its discretion, by the affirmative vote of a majority of the Directors, appoint committees which shall have and may exercise such powers as shall be conferred or authorized by the resolutions appointing them. A majority of any such committee, if the committee be composed of more than two members, may determine its action and fix the time and place of its meeting, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to fill vacancies in, to change the membership of, or to discharge any such committee.

3.13) Compensation of Directors. Directors who are not salaried officers of this corporation may receive such fixed sum per meeting attended or such fixed annual sum as may be determined, from time to time, by resolution of the Board of Directors. All directors may receive expenses, if any, of attendance at meetings of the Board of Directors or any committee thereof, if approved by resolution of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving this corporation in any other capacity in receiving compensation therefor.

3.14) Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a Board of Directors' meeting.

3.15) Authorization Without a Meeting. Any action required or permitted to be taken at a meeting of the Board or any committee may be taken without a meeting as authorized by law.

ARTICLE 4.

Officers

4.1) Number and Designation. The Board of Directors shall elect a Chief Executive Officer, a Chief Financial Officer, and may elect one or more Vice Presidents, a Secretary, Treasurer, Chairman of the Board and such other officers and agents as it may from time to time determine. Any number of offices may be held by one person.

4.2) Election, Term of Office and Qualifications. The Board shall elect the officers provided for in Section 4.1 annually and such officers shall hold office for a period of one (1) year or until their successors are elected or appointed and qualified; provided, however, that any officer may be removed with or without cause by the affirmative vote of a majority of the entire Board of Directors (without prejudice, however, to any contract rights of such officer).

4.3) Vacancies in Offices. If there be a vacancy in any office of the corporation, by reason of death, resignation, removal or otherwise, such vacancy shall be filled for the unexpired term by the Board of Directors at any regular or special meeting.

4.4) Chairman of the Board. The Board of Directors may, in its discretion, elect one of its number as Chairman of the Board. The Chairman shall preside at all meetings of the shareholders and of the Board and shall exercise general supervision and direction over the more significant matters of policy affecting the affairs of the corporation, including particularly its financial and fiscal affairs. The chairman of the Board may call a meeting of the Board whenever he deems it advisable.

4.5) Chief Executive Officer. The Chief Executive Officer shall:

(a) Have general active management of the business of the corporation;

(b) When present, preside at all meetings of the board and of the shareholders;

(c) See that all orders and resolutions of the board are carried into effect;

(d) Sign and deliver in the name of the corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the articles or bylaws or by the board to some other officer or agent of the corporation;

(e) Maintain records of and, whenever necessary, certify all proceedings of the board and the shareholders; and

(f) Perform other duties prescribed by the board.

4.6) Chief Financial Officer. The Chief Financial Officer shall:

(a) Keep accurate financial records for the corporation;

(b) Deposit all money, drafts, and checks in the name of and to the credit of the corporation in the banks and depositories designated by the board;

(c) Endorse for deposit all notes, checks, and drafts received by the corporation as ordered by the board, making proper vouchers therefor;

(d) Render to the Chief Executive Officer and the board, whenever requested, an account of all transactions by the Chief Financial Officer and of the financial condition of the corporation;

(e) In the absence of the Chief Executive Officer, preside at all meetings of the board and of the shareholders; and

(f) Perform other duties prescribed by the board or by the Chief Executive Officer.

4.7) Vice President. Each such Vice President shall have such powers and shall perform such duties as may be specified in these Bylaws or prescribed by the Board of Directors. In the event of absence or disability of the Chief Executive Officer, the Vice Presidents shall succeed to his powers and duties in the order in which they are elected.

4.8) Secretary. The Secretary shall be Secretary of and shall attend all meetings of the shareholders and Board of Directors. He shall act as clerk thereof and shall record all the proceedings of such meetings in the minute book of the corporation. He shall give proper notice of meetings of shareholders and directors. He may, with the Chairman of the Board, Chief Executive Officer or Vice President, sign all certificates representing shares of the corporation and shall perform the duties usually incident to his office and such other duties as may be prescribed by the Board of Directors from time to time.

4.9) Treasurer. In the event a Chief Financial Officer is not appointed or elected, a Treasurer shall be appointed or elected. If persons are appointed or elected to each office the Treasurer will perform the following duties subject to the direction and control of the Chief Financial Officer:

The Treasurer shall keep accurate accounts of all moneys of the corporation received or disbursed, and shall deposit all moneys, drafts and checks in the name of and to the credit of the corporation in banks and depositories as a majority of the whole Board of Directors shall designate from time to time. He shall have power to endorse for deposit the funds of the corporation as authorized by the Board of Directors. He shall render to the Chief Executive Officer, Chief Financial Officer and Board of Directors whenever required, an account of all of his transactions as Treasurer and statements of the financial condition of the corporation, and shall perform the duties usually incident to his office and such other duties as may be prescribed by the Board of Directors from time to time.

4.10) Other Officers. The Board of Directors may appoint one or more Assistant Secretaries, one or more Assistant Financial Officers or Treasurers, and such other officers, agents and employees as the Board may deem advisable. Each officer, agent or employee so appointed shall hold office at the pleasure of the Board and shall perform such duties as may be assigned to him by the Board, Chairman of the Board, or Chief Executive Officer.

4.11) Officers Shall Not Lend Corporate Credit. No officer of this corporation shall sign or endorse in the name or on behalf of this corporation or in his official capacity, any obligation for the accommodation of any other party or parties, nor shall any check, note, bond, stock certificate, or other security or thing of value belonging to this corporation be used by any officer or director as collateral for any obligation of his own or for any other purpose than for the use of the corporation.

ARTICLE 5.

Shares and Their Transfer

5.1) Certificates of Stock. The shares of the corporation shall be either certificated or uncertificated shares as determined by resolution of the Board of Directors. In the absence of such resolution shares shall be certificated. If shares are uncertificated the Secretary shall mail to each holder of uncertificated shares the information set forth at the end of this section to be contained on certificates. Every owner of certificated shares of stock of the corporation shall be entitled to a certificate, to be in such form as the Board of Directors may prescribe, certifying the number of shares of stock of the corporation owned by him. The certificates for such stock shall be numbered (separately for each class) in the order in which they shall be issued and shall be signed in the name of the corporation by the Secretary, Assistant Secretary, or any other proper officer of the corporation thereunto authorized by the Board of Directors. Signatures of the officers upon a certificate may be facsimiles. Certificates on which a facsimile signature of a former officer appears may be issued with the same effect as if he were such officer on the date of issue. Certificates shall contain the name of the corporation, state that the corporation is incorporated under the laws of the State of Minnesota, state the name of the holder and number, class and series, if any, that the certificate represents. Certificates shall in addition, be noted conspicuously on their face or back as to any transfer restrictions to which they are subject.

5.2) Stock Record. As used in these Bylaws, the term “shareholder” shall mean a person, in whose name outstanding shares of capital stock of the corporation are currently registered on the stock record books of the corporation. A record shall be kept of the name of the person owning the stock represented by such certificates respectively, the respective dates thereof and, in the case of cancellation, the respective dates of cancellation. Every certificate surrendered to the corporation for exchange or transfer shall be cancelled and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been cancelled (except as provided for in Section 5.4 of this Article 5).

5.3) Transfer of Shares. Transfer of shares on the books of the corporation may be authorized only by the shareholder named in the certificate (or his legal representative or duly authorized attorney-in-fact) and upon surrender for cancellation of the certificate or certificates for such shares. The shareholder in whose name shares of stock stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation; provided, that when any transfer of shares shall be made as collateral security and not absolutely, such fact, if known to the Secretary of the corporation or to the transfer agent, shall be so expressed in the entry of transfer.

5.4) Lost Certificates. Any shareholder claiming a certificate of stock to be lost or destroyed may obtain issuance of a new share certificate pursuant to Minnesota Statutes 336.8-405.

5.5) Treasury Stock. Treasury stock shall be held by the corporation subject to disposal by the Board of Directors in accordance with the Articles and these Bylaws, and shall not have voting rights nor participate in dividends, nor shall the same be subject to preemptive rights unless granted by the Articles.

5.6) Access to Information by Shareholders. A shareholder or his legal representative may examine at the registered office of the corporation within ten days of receipt by a corporate officer of written demand from such shareholder, originals or copies of:

(a) Records of all shareholders proceedings of the Board and any reports made to shareholders generally within the last three years;

(b) Articles, bylaws and amendments currently in effect;

(c) Annual financial statements for the end of the most recent financial statement of the corporation prepared in the ordinary course of its business for distribution to the shareholders or for a government agency as a matter of public record;

(d) Voting trust agreements and shareholder control agreements;

(e) A statement of the names and usual business addresses of the directors and principal officers of the corporation.

The shareholder may, upon written demand, examine and copy, in person or through his legal representative, the above documents and, in addition, the share register.

The shareholder may, upon written demand, examine and copy in person or through his legal representative, other corporate records only upon demonstrating a proper purpose reasonably related to that persons interest as a shareholder or holder of a voting trust certificate of the corporation.

5.7) [Vacant]

ARTICLE 6.

Distributions, Surplus, Reserves

6.1) Distributions. Subject to the provisions of the Articles of Incorporation and these Bylaws, the Board of Directors may declare distributions from assets of the corporation available for distributions whenever and in such amounts as, the Board determines on the basis of financial information prepared in accordance with accounting methods, or a fair valuation or other method reasonable in the circumstances that the corporation will be able to pay its debts in the ordinary course of business after the distribution.

6.2) Use of Surplus; Reserves. Subject to the provisions of the Articles of Incorporation and these Bylaws, the Board of Directors in its discretion may use and apply any of the net earnings or net assets of the corporation available for such purpose to purchase or acquire any of the shares of the capital stock of the corporation in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness, or from time to time may set aside from its net assets or net earnings such sums as it, in its absolute discretion, may think proper as a reserve fund to meet contingencies, for the purpose of maintaining or increasing the property or business of the corporation, or for any other purpose it may think conducive to the best interest of the corporation.

ARTICLE 7.

Fiscal Year and Audit

7.1) Fiscal Year. The fiscal year of the corporation shall end on the last day of December of each year unless another date is established by action of the Board of Directors.

7.2) Audit of Books and Accounts. The books and accounts of the corporation shall be subject to audit at such times as may be ordered by the Board of Directors.

ARTICLE 8.

Waiver of Notice and Unanimous Consent

8.1) Requirement of Waiver in Writing. Whenever any notice whatever is required to be given by these Bylaws, the Articles of Incorporation or any of the laws of the State of Minnesota, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before, at or after the time stated therein, shall be deemed equivalent to the actual required notice. The foregoing provision as to waiver of notice shall be in extension and not in limitation of any other provisions for waiver of notice contained in these Bylaws.

8.2) Authorization Without Meeting. Any action of the shareholders, the Board of Directors, or any lawfully constituted Committee of the corporation which may be taken at a meeting thereof, may be taken without a meeting if authorized by a writing or writings signed by the number of persons set forth in the Articles or in the event such number is not specified, by all of such shareholders, directors or committee members, as the case may be.

ARTICLE 9.

Amendments

9.1) General Amendment. Except as provided in Section 9.2 and in the Articles of Incorporation, these Bylaws may be altered, amended or repealed or new Bylaws enacted by the affirmative vote of a majority of the entire Board of Directors (if notice of the proposed alteration or amendment is contained in the notice of the meeting at which such vote is taken or if all directors are present) or at any regular meeting of the shareholders (or at any special meeting thereof duly called for that purpose) by the affirmative vote of a majority of the shares represented and entitled to vote at such meeting (if notice of the proposed alteration or amendment is contained in the notice of such meeting).

9.2) Certain Amendments. Notwithstanding anything contained in Section 9.1 of this Article 9 to the contrary, either (i) the affirmative vote of the holders of at least eighty percent (80%) of the votes entitled to be cast by the holders of all shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, or (ii) the affirmative vote of a majority of the entire Board of Directors with the concurring vote of a majority of the Continuing Directors, voting separately and as a subclass of directors, shall be required to alter, amend or repeal, or adopt any provision inconsistent with any Bylaw relating to procedures for advance notice of nominations for election to the Board of Directors (other than by the Board of Directors or committee thereof) or procedures for advance notice to the Board of Directors of business to be brought before an annual meeting of shareholders of the Company. For purposes of this Article 9, the term “Continuing Director” shall mean any member of the Board of Directors who was a member of the Board of Directors on February 24, 1986 or who is elected to the Board of Directors after February 24, 1986 upon the recommendation of a majority of Continuing Directors then serving as directors, voting separately and as a subclass of directors on such recommendation.

ARTICLE 10

Indemnification

10.1) Definitions.

(a) For purposes of this Article 10, the terms defined in this Section 10.1 have the meanings given them.

(b) "Corporation" includes any domestic or foreign corporation that was the predecessor of this corporation in a merger or other transaction in which the predecessor's existence ceased upon consummation of the transaction.

(c) "Official capacity" means (1) with respect to a director, the position of director in the corporation, (2) with respect to a person other than a director, the elective or appointive office or position held by an officer, member of a committee of the Board, or the employment or agency relationship undertaken by an employee or agent of the corporation, (3) with respect to a director, officer, employee, or agent of the corporation who, while a director, officer, employee, or agent of the corporation, is or was serving at the request of the corporation or whose duties in that position involve or involved service as a director, officer, partner, trustee, or agent of another organization or employee benefit plan, the position of that person as a director, officer, partner, trustee, employee, or agent, as the case may be, of the other organization or employee benefit plan.

(d) "Proceeding" means a threatened, pending, or completed civil, criminal, administrative, arbitration, or investigative proceeding, including a proceeding by or in the right of the corporation.

(e) "Special legal counsel" means counsel who has not represented the corporation or a related corporation, or a director, officer, employee, or agent whose indemnification is in issue.

10.2) Indemnification mandatory; standard.

(a) Subject to the provisions of Section 10.4, the corporation shall indemnify a person made or threatened to be made party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, the person:

(1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;

(2) acted in good faith;

(3) received no improper personal benefit and Minnesota Statutes, Section 302A.255, if applicable, has been satisfied;

(4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and

(5) in the case of acts or omissions occurring in the official capacity described in Section 10.1, paragraph (c), clause (1) or (2), reasonably believed that the conduct was in the best interests of the corporation, or in the case of acts or omissions occurring in the official capacity described in Section 10.1, paragraph (c), clause (3), reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

(b) The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this Section 10.2.

10.3) Advances. Subject to the provisions of Section 10.4, if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the corporations to payment or reimbursement by the corporation of reasonable expenses, including attorneys' fees and disbursements, incurred by the person in advance of the final disposition of the proceeding, (a) upon receipt by the corporation of a written affirmation by the person of a good faith belief that the criteria for indemnification set forth in Section 10.2 have been satisfied and a written undertaking by the person to repay all amounts so paid or reimbursed by the corporation, if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under this Article 10. The written undertaking required by clause (a) is an unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

10.4. Reimbursement to witness. The corporation shall reimburse expenses, including attorneys fees and disbursements, incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding.

10.5) Determination of eligibility. (a) All determinations whether indemnification of a person is required because the criteria set forth in Section 10.2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Section 10.3 shall be made:

(1) By the Board by a majority of a quorum; directors who are at the time parties to the proceeding shall not be counted for determining either a majority or the presence of a quorum;

(2) If a quorum under clause (1) cannot be obtained, by a majority of a committee of the Board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full Board including directors who are parties;

(3) If a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the Board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full Board cannot be obtained and the committee cannot be established, by a majority of the full Board including directors who are parties;

(4) If a determination is not made under clauses (1) to (3), by the shareholders, excluding the votes of shares held by parties to the proceeding; or

(5) If an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after the termination of a proceeding or after a request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person’s liability took place, upon application of the person and any notice the court requires.

(b) With respect to a person who is not, and was not at the time of the acts or omissions complained of in the proceedings, a director, officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the corporation, the determination whether indemnification of this person is required because the criteria set forth in Section 10.2 have been satisfied and whether this person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Section 10.3 may be made by an annually appointed committee of the Board, having at least one member who is a director. The committee shall report at least annually to the Board concerning its actions.

10.6) Insurance. The corporation may purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the corporation would have been required to indemnify the person against the liability under the provisions of this Article 10.

10.7) Disclosure. The amount of any indemnification or advance paid pursuant to this Article 10 and to whom and on whose behalf it was paid shall be reported as part of the annual financial statements furnished to shareholders pursuant to Minnesota Statutes, Section 302A.463, covering the period when the indemnification or advance was paid or accrued under the accounting method of the corporation reflected in the financial statements.

10.8) Discretionary Indemnification. Nothing in this Article 10 shall be construed to limit the ability of the Board of Directors to indemnify any person or entity not described in this Article 10 pursuant to, and to the extent described in, an agreement authorized by a majority of the directors then in office.

Exhibit 31.1

CERTIFICATION

I, Roger H.D. Lacey certify that:

1. I have reviewed this quarterly report on Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Roger H.D. Lacey
Roger H.D. Lacey
Interim Chief Executive Officer

Date: August 7, 2014

Exhibit 31.2

CERTIFICATION

I, Edwin C. Freeman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Edwin C. Freeman
Edwin C. Freeman
Chief Financial Officer

Date: August 7, 2014

Exhibit 32

CERTIFICATION

The undersigned certify pursuant to 18 U.S.C. § 1350, that:

(1) The accompanying Quarterly Report on Form 10-Q for the periods ended June 30, 2014, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the accompanying Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	By	/s/ Roger H.D. Lacey
		Roger H.D. Lacey
Date: August 7, 2014		Interim Chief Executive Officer
	By	/s/ Edwin C. Freeman
		Edwin C. Freeman
Date: August 7, 2014		Chief Financial Officer

Exhibit 99.1

FOR IMMEDIATE RELEASE

COMMUNICATIONS SYSTEMS, INC. REPORTS SECOND QUARTER 2014 FINANCIAL RESULTS

Second Quarter 2014 Summary

- Consolidated sales rose 4% to $33.2 million from $31.9 million in Q2 2013.
  - Suttle sales grew 37% from Q2 2013
  - Transition Networks sales rose 11% from Q2 2013
  - JDL Technologies sales declined 65% from Q2 2013
- Gross profit improved to $12.1 million, or 36.4% of revenues, from $11.5 million, or 36.1% of revenues, in Q2 2013.
- Operating income was $2.4 million compared to $2.6 million in Q2 2013.
  - Suttle operating income grew $1.8 million to $2.9 million
  - Transition Networks declined $0.3 million to an operating loss of $0.2 million
  - JDL Technologies declined $1.6 million to an operating loss of $0.3 million
- Net income was $1.4 million, or $0.17 per diluted share, compared to net income of $1.6 million, or $0.19 per diluted share, in Q2 2013.
- At June 30, 2014, cash, cash equivalents, and investments were $31.5 million.

Minnetonka, MN – August 6, 2014 – Communications Systems, Inc. (NASDAQ: JCS) ("CSI" or the "Company"), a global provider of physical connectivity infrastructure and services for deployments of broadband networks, today announced financial results for the second quarter ended June 30, 2014 (Q2 2014), including a discussion of results of operations by segment.

CSI's Interim Chief Executive Officer Roger H.D. Lacey commented, "Our results for the second quarter reflect continuing growth at Suttle, which achieved large gains in revenues, gross margin and operating income, and significant progress at Transition Networks and JDL Technologies in repositioning for their future growth. We will continue to implement our previously announced recovery plan over the next several quarters.

"Revenues at Suttle increased on both a year-over-year and sequential quarterly basis due in large part to sales from core high-speed copper connectivity products and from new FTTx (fiber to the home or node) product platforms that we commenced shipping in April to a Tier 1 carrier. Suttle's performance should continue to improve throughout 2014, because of further sales of these and other recently developed products. Suttle also recently introduced MediaMAX™, a new brand of products that meet the growing need for wired and wireless high-speed, high-quality triple play connectivity to all areas of the home and small office, while lowering total cost of ownership. Revenues at Transition Networks also increased on both a year-over-year and sequential quarterly basis. Transition Networks remains focused on repositioning its business and the continued refinement of its strategy should be evident in succeeding quarters. Results at JDL Technologies continued to reflect reduced federal and local funding for educational IT investments, particularly as the E-Rate program is undergoing extensive modernization. We are continuing to refine JDL Technologies' business model to reduce its dependence on government funding, pursuing opportunities to provide managed services and other network services."

Mr. Lacey concluded, "We ended the quarter in a strong financial position, which will help support our ongoing growth initiatives. CSI's balance sheet at June 30, 2014 included cash, cash equivalents, and investments of $31.5 million, working capital of $61.8 million, and stockholders' equity of $87.9* million." [Revised]

Segment Financial Overview

See the Form 10Q to be filed on August 7, 2014 for more details of the quarter.

CSI operates through the following business units:

- Suttle manufactures and markets copper and fiber connectivity systems, enclosure systems, xDSL filters and splitters, and active technologies for voice, data and video communications under the Suttle brand in the United States and internationally;
- Transition Networks manufactures network interface devices (NIDs), media converters, network interface cards (NICs), Ethernet switches, and other connectivity products that offer customers the ability to affordably integrate fiber optics into any data network; and
- JDL Technologies provides technology solutions including virtualization, managed services, wired and wireless network design and implementation, HIPAA-compliant IT solutions, and converged infrastructure configuration and deployment.

Suttle

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Sales	$ 19,006,000	$ 13,852,000	$ 31,889,000	$ 26,265,000
Gross profit	6,275,000	3,862,000	9,765,000	7,178,000
Operating income	2,917,000	1,135,000	3,270,000	1,823,000

Q2 2014 sales rose 37% from Q2 2013, due to revenue generated from new FTTx product platforms. Sales to communication service providers rose 50% to $16 million from $10.6 million in Q2 2013, and comprised 84% of total segment revenues, up from 77% in Q2 2013. This increase was due to growth in core high-speed copper connectivity products and success in securing new business in multiple FTTx domains.

Gross margin in Q2 2014 rose 62% to $6.3 million, or 33% of sales, from $3.9 million, or 28% of sales, in Q2 2013. This was the result of the introduction of new FTTx products, focused value engineering and cost optimization efforts, and economies of scale.

Transition Networks

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Sales	$ 11,567,000	$ 10,462,000	$ 21,317,000	$ 21,275,000
Gross profit	5,386,000	5,675,000	10,092,000	11,396,000
Operating (loss) income	(223,000)	103,000	(935,000)	(221,000)

Q2 2014 sales rose 11% from Q2 2013. Sales in North America increased 12% to $8.2 million due to improving conditions at key customers, and Rest of World sales rose 19% to $2.2 million primarily due to higher sales in Latin America. These improvements more than offset an 11% sales decline in Europe, Middle East, Africa (EMEA).

Gross margin decreased 5% to $5.4 million, or 47% of sales, from $5.7 million, or 54% of sales, in Q2 2013, due to unfavorable product mix and pricing pressure.

JDL Technologies

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Sales	$ 2,635,000	$ 7,623,000	$ 5,202,000	$ 11,850,000
Gross profit	433,000	1,991,000	1,224,000	2,731,000
Operating (loss) income	(288,000)	1,328,000	(181,000)	1,336,000

Results at JDL Technologies continue to be affected by the federal government's decision to withhold all priority two E-Rate funding this year, as the E-Rate program undergoes an extensive modernization project that will affect most key elements in the program. The E-Rate program was developed to assist schools and libraries in the United States in obtaining affordable telecommunications and Internet access.

Sales declined 65% to $2.6 million in Q2 2014 from $7.6 million in Q2 2013. Reflecting JDL Technologies' ongoing initiative to expand its reach in the South Florida commercial market, sales to small-and medium-sized commercial businesses (SMBs) increased by 36% to $0.6 million in Q2 2014 from $0.4 million in Q2 2013.

Q2 2014 gross margin declined 78% to $0.4 million, or 16% of sales, from $2.0 million, or 26% of sales, in Q2 2013, primarily due to a change in revenue mix led by an increase in infrastructure sales to Broward County Public Schools, where margins have tended to be lower.

About Communications Systems

Communications Systems, Inc. provides physical connectivity infrastructure and services for global deployments of broadband networks. Focusing on innovative, cost-effective solutions, CSI provides customers the ability to deliver, manage, and optimize their broadband network services and architecture. From the integration of fiber optics in any application and environment to efficient home voice and data deployments to optimization of data and application access, CSI provides the tools for maximum utilization of the network from the edge to the user. With partners and customers in over 50 countries, CSI has built a reputation as a reliable global innovator focusing on quality and customer service.

Forward- Looking Statements

This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future financial performance, future growth and future acquisitions. These statements are based on Communications Systems' current expectations or beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein due to changes in economic, business, competitive or regulatory factors, and other risks and uncertainties affecting the operation of Communications Systems' business. These risks, uncertainties and contingencies are indicated from time to time in the Company's filings with the Securities and Exchange Commission. The information set forth herein should be read in light of such risks. Further, investors should keep in mind that the Company's financial results in any particular period may not be indicative of future results. Communications Systems is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

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CSI CONSOLIDATED SUMMARY OF EARNINGS

Selected Income Statement Data

	Unaudited Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
Sales	$	33,208,977	$	31,936,602
Gross margin		12,093,768		11,528,317
Operating income		2,405,521		2,566,850
Income before income taxes		2,275,325		2,577,830
Income tax expense		837,842		939,273
Net income	$	1,437,483	$	1,638,557
Basic net income per share	$	0.17	$	0.19
Diluted net income per share	$	0.17	$	0.19
Cash dividends per share	$	0.16	$	0.16
Average basic shares outstanding		8,621,387		8,537,369
Average dilutive shares outstanding		8,644,505		8,540,965

Selected Balance Sheet Data

	Unaudited June 30, 2014		December 31, 2013	
Total assets	$	103,798,702	$	103,532,741
Cash, cash equivalents and investments		31,453,200		29,722,412
Working capital		61,766,500		70,599,599
Property, plant and equipment, net		16,255,766		14,941,492
Long-term liabilities		1,503,611		1,837,848
Stockholders’ equity		87,880,487		88,622,043