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 **March 31, 2015**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR15(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	41-0957999
(State or other jurisdiction of incorporation or organization)	(Federal Employer Identification No.)
10900 Red Circle Drive, Minnetonka, MN	55343
(Address of principal executive offices)	(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 May 1, 2015**
Common Stock, par value $.05 per share	NASDAQ	8,712,330

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
ASSETS

	March 31 2015	December 31 2014
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,149,624	$ 13,736,857
Investments	4,878,321	4,602,717
Trade accounts receivable, less allowance for doubtful accounts of $145,000 and $22,000, respectively	10,877,375	13,839,662
Inventories	32,478,501	31,109,653
Prepaid income taxes	3,814,609	2,317,688
Other current assets	1,318,797	1,050,000
Deferred income taxes	3,250,106	3,249,164
TOTAL CURRENT ASSETS	65,767,333	69,905,741
PROPERTY, PLANT AND EQUIPMENT, net	18,437,556	18,153,152
OTHER ASSETS:		
Investments	10,585,239	11,540,261
Funded pension assets	152,010	172,405
Other assets	857,794	514,676
TOTAL OTHER ASSETS	11,595,043	12,227,342
TOTAL ASSETS	$ 95,799,932	100,286,235
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 500,096	$ 524,220
Accounts payable	6,462,791	5,180,631
Accrued compensation and benefits	2,935,454	3,696,930
Other accrued liabilities	2,391,084	2,146,582
Dividends payable	1,463,075	1,446,498
TOTAL CURRENT LIABILITIES	13,752,500	12,994,861
LONG TERM LIABILITIES:		
Uncertain tax positions	77,823	77,279
Deferred income taxes	1,001,688	1,089,994
Long-term debt - mortgage payable	—	103,603
TOTAL LONG-TERM LIABILITIES	1,079,511	1,270,876
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; 8,707,564 and 8,654,756 shares issued and outstanding, respectively	435,378	432,738
Additional paid-in capital	39,232,052	38,593,230
Retained earnings	42,083,492	47,689,688
Accumulated other comprehensive loss	(783,001)	(695,158)
TOTAL STOCKHOLDERS' EQUITY	80,967,921	86,020,498
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 95,799,932	$ 100,286,235

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

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

	Three Months Ended March 31	
	2015	2014
Sales	$ 19,544,936	$ 25,198,406
Costs and expenses:		
Cost of sales	14,657,998	16,210,390
Selling, general and administrative expenses	10,578,176	9,002,112
Restructuring expense	—	237,838
Total costs and expenses	25,236,174	25,450,340
Operating loss	(5,691,238)	(251,934)
Other income and (expenses) :		
Investment and other income	62,963	5,960
Gain on sale of assets	4,285	5,740
Interest and other expense	(13,218)	(24,655)
Other income (expense), net	54,030	(12,955)
Loss from operations before income taxes	(5,637,208)	(264,889)
Income tax benefit	(1,473,732)	(124,306)
Net loss	(4,163,476)	(140,583)
Other comprehensive loss, net of tax:		
Additional minimum pension liability adjustments	(12,646)	(87,343)
Unrealized gain/(loss) on available-for-sale securities	55,120	(22,890)
Foreign currency translation adjustment	(130,317)	26,550
Total other comprehensive loss	(87,843)	(83,683)
Comprehensive loss	$ (4,251,319)	$ (224,266)
Basic net loss per share:	$ (0.48)	$ (0.02)
Diluted net loss per share:	$ (0.48)	$ (0.02)
Weighted Average Basic Shares Outstanding	8,660,819	8,565,426
Weighted Average Dilutive Shares Outstanding	8,660,819	8,565,426
Dividends declared per share	$ 0.16	$ 0.16

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Loss	Total
BALANCE AT DECEMBER 31, 2014	8,654,756	$ 432,738	$ 38,593,230	$ 47,689,688	$ (695,158)	$ 86,020,498
Net loss				(4,163,476)		(4,163,476)
Issuance of common stock under Employee Stock Purchase Plan	4,028	201	42,093			42,294
Issuance of common stock to Employee Stock Ownership Plan	36,707	1,835	383,588			385,423
Issuance of common stock under Executive Stock Plan	16,440	822	0			822
Tax benefit from stock based payments			(5,712)			(5,712)
Share based compensation			238,349			238,349
Purchase of common stock	(4,367)	(218)	(19,496)	(30,943)		(50,657)
Shareholder dividends				(1,411,777)		(1,411,777)
Other comprehensive loss					(87,843)	(87,843)
BALANCE AT MARCH 31, 2015	8,707,564	$ 435,378	$ 39,232,052	$ 42,083,492	$ (783,001)	$ 80,967,921

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

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

	Three Months Ended March 31	
	2015	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,163,476)	$ (140,583)
Adjustments to reconcile net loss to		
net cash provided by operating activities:		
Depreciation and amortization	780,477	560,622
Share based compensation	238,349	48,281
Deferred taxes	(89,248)	91,364
Gain on sale of assets	(4,285)	(5,740)
Excess tax benefit from share-based payments	5,712	9,067
Changes in assets and liabilities:		
Trade receivables	2,956,932	6,686,463
Inventories	(1,398,048)	(733,914)
Prepaid income taxes	(1,496,921)	(225,644)
Other assets	(657,485)	14,645
Accounts payable	1,071,831	617,539
Accrued compensation and benefits	(371,707)	(996,144)
Other accrued liabilities	256,330	(98,905)
Income taxes payable	(5,168)	(3,663)
Net cash (used in) provided by operating activities	(2,876,707)	5,823,388
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(853,074)	(823,633)
Purchases of investments	—	(6,539,789)
Proceeds from the sale of fixed assets	22,853	5,740
Proceeds from the sale of investments	734,537	1,380,000
Net cash used in investing activities	(95,684)	(5,977,682)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(1,395,200)	(1,368,532)
Mortgage principal payments	(127,727)	(119,318)
Proceeds from issuance of common stock, net of shares withheld	(7,541)	35,686
Excess tax benefit from share-based payments	(5,712)	(9,067)
Payment of contingent consideration related to acquisition	—	(565,647)
Net cash used in financing activities	(1,536,180)	(2,026,878)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(78,662)	9,368
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,587,233)	(2,171,804)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,736,857	20,059,120
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,149,624	$ 17,887,316
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 500	$ 14,613
Interest paid	13,121	18,405
Dividends declared not paid	1,463,075	1,454,417
Capital expenditures in accounts payable	218,019	237,330

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

COMMUNICATIONS SYSTEMS, INC.
NOTES 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, and the United Kingdom. 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 media converters, network interface devices, 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 March 31, 2015 and the related condensed consolidated statements of loss and comprehensive loss, and the condensed consolidated statements of cash flows for the periods ended March 31, 2015 and 2014 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 March 31, 2015 and 2014 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, 2014 Annual Report to Shareholders on Form 10-K. The results of operations for the period ended March 31, 2015 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, 2014, appropriately represent, in all material respects, the current status of accounting policies, and are incorporated herein by reference.

Accumulated Other Comprehensive Loss

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

	March 31 2015	December 31 2014
Foreign currency translation	$ (2,735,000)	$ (2,605,000)
Unrealized gain/(loss) on available-for-sale investments	14,000	(41,000)
Pension liability adjustment	1,938,000	1,951,000
	$ (783,000)	$ (695,000)

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 March 31, 2015 and December 31, 2014:

	March 31, 2015						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 442,000	$ —	$ —	$ 442,000	$ 442,000	$	$
Subtotal	442,000	—	—	442,000	442,000	—	—
Investments:							
Certificates of deposit	6,693,000	9,000	(3,000)	6,699,000	—	1,683,000	5,016,000
Corporate Notes/Bonds	8,763,000	7,000	(6,000)	8,764,000	—	3,195,000	5,569,000
Subtotal	15,456,000	16,000	(9,000)	15,463,000	—	4,878,000	10,585,000
Total	$ 15,898,000	$ 16,000	$ (9,000)	$ 15,905,000	$ 442,000	$ 4,878,000	$ 10,585,000

	December 31, 2014						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market funds	$ 1,073,000	$ —	$ —	$ 1,073,000	$ 1,073,000	$	$
Subtotal	1,073,000	—	—	1,073,000	1,073,000	—	—
Investments:							
Certificates of deposit	7,414,000	1,000	(32,000)	7,383,000	—	1,920,000	5,463,000
Corporate Notes/Bonds	8,777,000	6,000	(23,000)	8,760,000	—	2,683,000	6,077,000
Subtotal	16,191,000	7,000	(55,000)	16,143,000	—	4,603,000	11,540,000
Total	$ 17,264,000	$ 7,000	$ (55,000)	$ 17,216,000	$ 1,073,000	$ 4,603,000	$ 11,540,000

The Company tests for other than temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments until it can recover the full principal amount and has the ability to do so based on other sources of liquidity. The Company expects these recoveries to occur prior to the contractual maturities. All unrealized losses as of March 31, 2015 were in a continuous unrealized loss position for less than twelve months and are not deemed to be other than temporarily impaired as of March 31, 2015.

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 March 31, 2015:

	Amortized Cost	Estimated Market Value
Due within one year	$ 4,634,000	$ 4,878,000
Due after one year through five years	10,582,000	10,585,000
	$ 15,216,000	$ 15,463,000

The Company did not recognize any gross realized gains, and gross realized losses were immaterial, during the three-month periods ending March 31, 2015 and 2014, 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.

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 85% of the price at the end of each current quarterly plan term. The most recent term ended March 31, 2015. The ESPP is considered compensatory under current Internal Revenue Service rules. At March 31, 2015, after giving effect to the shares issued as of that date, 17,455 shares remain available for purchase under the ESPP. On April 3, 2015, the Company's Board of Directors amended the ESPP to increase the authorized shares by 100,000 to 600,000, subject to approval at the Company's Annual Meeting of Shareholders to be held on May 21, 2015.

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 2015, stock options covering 105,279 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 100,017 shares to key employees during the first quarter under the Company's long-term incentive plan for performance over the 2015 to 2017 period. The actual number of shares of deferred stock, if any, that are earned by the respective employees will be determined based on achievement against performance goals for each of the three years ending December 31, 2017 and the shares earned will be issued in the first quarter of 2018 to those key employees still with the Company at that time.

At March 31, 2015, 65,651 shares have been issued under the 2011 Incentive Plan, 801,293 shares are subject to currently outstanding options, deferred stock awards, and unvested restricted stock units, and 133,056 shares are eligible for grant under future awards. On April 3, 2015, the Company's Board of Directors amended the 2011 Stock Incentive plan to increase the authorized shares by 1,000,000 to 2,000,000, subject to approval at the Company's Annual Meeting of Shareholders to be held on May 21, 2015.

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 2014 or 2015. 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 March 31, 2015, after reserving for stock options and deferred stock awards granted in prior years and adjusting for forfeitures and issuances during the year, there were 22,008 shares reserved for issuance under the Stock Plan. The Company has not awarded stock options or deferred stock under this plan in 2015.

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, 2014 to March 31, 2015:

	Options	Weighted average exercise price per share	Weighted average remaining contractual term
Outstanding – December 31, 2014	540,404	$ 11.90	5.13
Awarded	105,279	11.65	
Exercised	—	—	
Forfeited	(10,433)	11.97	
Outstanding – March 31, 2015	635,250	11.86	5.22
Exercisable at March 31, 2015	237,409	$ 11.64	3.49
Expected to vest March 31, 2015	635,250	11.86	5.22

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 March 31, 2015 was $158,000. The intrinsic value of all options exercised during the three months ended March 31, 2015 was $0. Net cash proceeds from the exercise of all stock options were $0 for the three months ended March 31, 2015 and 2014.

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, 2014 to March 31, 2015:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2014	161,314	$ 10.87
Granted	100,017	11.59
Vested	(16,440)	12.55
Forfeited	(5,991)	10.26
Outstanding – March 31, 2015	238,900	11.07

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, 2014 to March 31, 2015:

	Shares	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2014	39,151	$ 10.67
Granted	—	—
Vested	—	—
Forfeited	—	—
Outstanding – March 31, 2015	39,151	10.67

Compensation Expense

Share-based compensation expense recognized for the three-month period ended March 31, 2015 was $238,000 before income taxes and $155,000 after income taxes. Share-based compensation expense recognized for the three-month period ended March 31, 2014 was $48,000 before income taxes and $31,000 after income taxes. Unrecognized compensation expense for the Company's plans was $1,204,000 at March 31, 2015 and is expected to be recognized over a weighted-average period of 2.7 years. Excess tax benefits from the exercise of stock options and issuance of stock included in financing cash flows for the three month periods ended March 31, 2015 and 2014 were $ (6,000) and $ (9,000), 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:

	March 31 2015	December 31 2014
Finished goods	$ 19,661,000	$ 19,208,000
Raw and processed materials	12,818,000	11,902,000
	$ 32,479,000	$ 31,110,000

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:

	March 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Trademarks	91,000	(39,000)	(8,000)	44,000
Customer relationships	491,000	(163,000)	(46,000)	282,000
Technology	229,000	(152,000)	(21,000)	56,000
	811,000	(354,000)	(75,000)	382,000

	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Trademarks	91,000	(38,000)	(4,000)	49,000
Customer relationships	491,000	(159,000)	(26,000)	306,000
Technology	229,000	(149,000)	(11,000)	69,000
	811,000	(346,000)	(41,000)	424,000

Amortization expense on these identifiable intangible assets was $24,000 and $27,000 for the three months ended 2015 and 2014, respectively. The amortization expense is included in selling, general and administrative expenses. At March 31, 2015, the estimated future amortization expense for definite-lived intangible assets for the remainder of 2015 and all of the following four fiscal years is as follows:

Year Ending December 31:		
2015	$	75,000
2016		83,000
2017		58,000
2018		53,000
2019		46,000

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 three-month periods ended March 31, 2015 and 2014, respectively, the majority of which relates to a five-year obligation to provide for potential future liabilities for network equipment sales.

	2015	2014
Beginning balance	$ 434,000	$ 564,000
Amounts charged to expense	142,000	12,000
Actual warranty costs paid	(22,000)	(50,000)
Ending balance	$ 554,000	$ 526,000

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 March 31, 2015 there was $76,000 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 2011-2013 remain open to examination by the Internal Revenue Service and the years 2010-2013 remain open to examination by various state tax departments. The tax years from 2011-2013 remain open in Costa Rica.

The Company's effective income tax rate was 26.1% for the first three months of 2015. The effective tax rate differs from the federal tax rate of 35% due to state income taxes, foreign tax rate differences, foreign losses not deductible for U.S. income tax purposes and expenses not deductible for tax purposes. The foreign operating losses may ultimately be deductible in the countries in which they occurred; however the Company has not recorded a deferred tax asset for these losses due to uncertainty regarding the eventual realization of the benefit. The effect of the foreign operations was an overall rate increase of approximately 4.2% for the three months ended March 31, 2015. There were no additional uncertain tax positions identified in the first three months of 2015. The Company's effective income tax rate for the three months ended March 31, 2014 was 46.9%, and differed from the federal tax rate due to state income taxes, foreign losses not deductible for U.S. income tax purposes and provisions for interest charges.

NOTE 9 – SEGMENT INFORMATION

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 media converters, network interface devices (NIDs), 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.

Information concerning the Company's continuing operations in the various segments for the three month periods ended March 31, 2015 and 2014 is as follows:

	Suttle	Transition Networks	JDL Technologies	Other	Total
Three Months Ended March 31, 2015					
Sales	$ 10,590,000	$ 8,090,000	$ 865,000	$ —	$ 19,545,000
Cost of sales	9,149,000	4,685,000	824,000	—	14,658,000
Gross profit	1,441,000	3,405,000	41,000	—	4,887,000
Selling, general and administrative expenses	4,306,000	5,462,000	810,000	—	10,578,000
Operating loss	$ (2,865,000)	$ (2,057,000)	$ (769,000)	$ —	$ (5,691,000)
Depreciation and amortization	$ 507,000	$ 247,000	$ 26,000	$ —	$ 780,000
Capital expenditures	$ 649,000	$ 86,000	$ 44,000	$ 74,000	$ 853,000
Assets	$ 40,210,000	$ 26,870,000	$ 4,367,000	$ 24,353,000	$ 95,800,000

	Suttle	Transition Networks	JDL Technologies	Other	Total
Three Months Ended March 31, 2014					
Sales	$ 12,882,000	$ 9,749,000	$ 2,567,000	$ —	$ 25,198,000
Cost of sales	9,392,000	5,043,000	1,775,000	—	16,210,000
Gross profit	3,490,000	4,706,000	792,000	—	8,988,000
Selling, general and administrative expenses	3,137,000	5,180,000	685,000	—	9,002,000
Restructuring expense		238,000			238,000
Operating income (loss)	$ 353,000	$ (712,000)	$ 107,000	$ —	$ (252,000)
Depreciation and amortization	$ 293,000	$ 231,000	$ 37,000	$ —	$ 561,000
Capital expenditures	$ 627,000	$ 107,000	$ 10,000	$ 80,000	$ 824,000
Assets	$ 32,608,000	$ 27,093,000	$ 6,347,000	$ 35,025,000	$ 101,073,000

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 ended March 31, 2015 and 2014 were:

	Three Months Ended March 31	
	2015	2014
Service cost	$ 2,000	$ 1,000
Interest cost	34,000	39,000
Expected return on assets	(45,000)	(49,000)
Net periodic pension benefit	$ (9,000)	$ (9,000)

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NOTE 11 – NET INCOME (LOSS) 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 no dilutive effect for the three months ended March 31, 2015 and 2014. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Due to the net losses in the first three months of 2014 and 2015, there was no dilutive impact from stock options or unvested shares. Options totaling 522,922 and 103,896 would have been excluded from the calculation of diluted earnings per share for the three-months ended March 31, 2015 and 2014, respectively, because the exercise price was greater than the average market price of common stock during the period and deferred stock awards totaling 205,010 and 172,750 shares would not have been included for the three-months ended March 31, 2015 and 2014 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 March 31, 2015 and December 31, 2014, are summarized below:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 442,000	$ —	$ —	$ 442,000
Certificates of deposit		—		—
Subtotal	442,000	—	—	442,000
Short-term investments:				
Certificates of deposit	—	1,683,000	—	1,683,000
Corporate Notes/Bonds	—	3,195,000	—	3,195,000
Subtotal	—	4,878,000	—	4,878,000
Long-term investments:				
Certificates of deposit	—	5,016,000	—	5,016,000
Corporate Notes/Bonds	—	5,569,000	—	5,569,000
Subtotal	—	10,585,000	—	10,585,000
Total	$ 442,000	$ 15,463,000	$ —	$ 15,905,000

	December 31, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money Market funds	$ 1,073,000	$ —	$ —	$ 1,073,000
Subtotal	1,073,000	—	—	1,073,000
Short-term investments:				
Certificates of deposit	—	1,920,000	—	1,920,000
Corporate Notes/Bonds	—	2,683,000	—	2,683,000
Subtotal	—	4,603,000	—	4,603,000
Long-term investments:				
Certificates of deposit	—	5,463,000	—	5,463,000
Corporate Notes/Bonds	—	6,077,000	—	6,077,000
Subtotal	—	11,540,000	—	11,540,000
Total	$ 1,073,000	$ 16,143,000	$ —	$ 17,216,000

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 three months ended March 31, 2015.

NOTE 13 – RESTRUCTURING CHARGES

During the three-months ended March 31, 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 had no restructuring expenses for the three-month period ended March 31, 2015.

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 media converters, network interface devices (NIDs), 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.

First Quarter 2015 Summary

- Consolidated sales of $19.5 million compared to $25.2 million in Q1 2014.
  - Suttle sales declined 18%
  - Transition Networks sales declined 17%
  - JDL Technologies sales declined 66%
- Gross profit of $4.7 million, or 24% of revenues, compared to gross profit of $9.0 million, or 36% of revenues, in Q1 2014.
- Operating income decreased to a loss of $5.7 million from an operating loss of $252,000 in Q1 2014.
  - Suttle operating loss was $2.9 million
  - Transition Networks operating loss was $2.1 million
  - JDL Technologies operating loss was $769,000
- Net loss was $4.2 million, or ($0.48) per diluted share, compared to a net loss of $141,000, or ($0.02) per diluted share, in Q1 2014.
- Cash, cash equivalents, and investments decreased to $24.6 million at March 31, 2015 from $29.9 million at December 31, 2014.

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 to replace declining sales in its legacy 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; and
- Transition Networks' ability to profitably penetrate targeted 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, including the E-Rate program.

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 March 31, 2015 Compared to
Three Months Ended March 31, 2014

Consolidated sales decreased 22% in 2015 to $19,545,000 compared to $25,198,000 in 2014. Consolidated operating loss in 2015 increased to $5,691,000 compared to an operating loss of $252,000 in the first quarter of 2014. Net loss in 2015 increased to $4,163,000 or $ (0.48) per share compared to a net loss of $141,000 or $ (0.02) per share in the first quarter of 2014.

Suttle Results

Suttle sales decreased 18% in the first quarter of 2015 to $10,590,000 compared to $12,882,000 in the same period of 2014 as Suttle experienced increased pricing pressure and volume declines in its legacy product lines. Sales by customer groups in the first quarter of 2015 and 2014 were:

	Suttle Sales by Customer Group	
	2015	2014
Communication service providers	$ 8,700,000	$ 10,758,000
Distributors	783,000	1,440,000
International	995,000	678,000
Other	112,000	6,000
	$ 10,590,000	$ 12,882,000

Suttle's sales by product groups in first quarter of 2015 and 2014 were:

	Suttle Sales by Product Group	
	2015	2014
Modular connecting products	$ 2,488,000	$ 3,214,000
Structured cabling products	5,376,000	7,276,000
DSL products	941,000	1,173,000
FTTx products	1,577,000	1,194,000
Other products	208,000	25,000
	$ 10,590,000	$ 12,882,000

Sales to the major communication service providers decreased 19% in 2015 due to a disrupted order cycle at a major customer that significantly curtailed its first quarter purchasing, and overall decline in legacy product lines. Sales to major communication service providers accounted for 82% of Suttle's sales in the first quarter of 2015 compared to 84% of sales in 2014. Sales to distributors decreased 46% in 2015 due to a continuing decline in legacy product lines. This customer segment accounted for 7% and 11% of sales in the first quarters of 2015 and 2014, respectively. International sales increased 47% and accounted for 9% of Suttle's first quarter 2015 sales, due to the ordering cycle of DSL products for a major customer.

Sales of structured cabling products decreased 26% due to reduced demand in major customers. Sales of DSL products decreased 20% and modular connecting products sales decreased 23% due to shifts in technology. Sales of FTTx products increased 32% due to success in securing new business in multiple new FTTx networks deployments.

Suttle's gross margin decreased 59% in the first quarter of 2015 to $1,441,000 compared to $3,490,000 in the same period of 2014. Gross margin as a percentage of sales decreased to 13.6% from 27.1% in the same period of 2014 due to increased pricing pressure at a major customer and high production variances due to decreased demand, as well as continued investment into production capabilities to support new FTTx product platforms. Selling, general and administrative expenses increased 33% to $4,306,000, or 40.7% of sales, in the first quarter of 2015 compared to $3,137,000, or 24.4% of sales, in the same period in 2014 due in part to investment into fiber and active capabilities to support new product platforms. Suttle incurred $1,396,000 and $748,000 in research and development expenses in the respective 2015 and 2014 first quarters, as it continues to invest in enhancing existing products and developing new products. Suttle's operating income was a loss of $2,865,000 in the first quarter of 2015 compared to income of $353,000 in 2014.

Transition Networks Results

Transition Networks sales decreased 17% to $8,090,000 in the first quarter of 2015 compared to $9,749,000 in 2014 due to decreased activity in the North American and EMEA markets. Transition Networks organizes its sales force by channel to market and segments its customers geographically. First quarter sales by region are presented in the following table:

	Transition Networks Sales by Region	
	2015	**2014**
North America	$ 5,406,000	$ 6,897,000
Europe, Middle East, Africa ("EMEA")	1,043,000	1,205,000
Rest of World	1,641,000	1,647,000
	$ 8,090,000	$ 9,749,000

The following table summarizes Transition Networks' 2015 and 2014 first quarter sales by its major product groups:

	Transition Networks Sales by Product Group	
	2015	**2014**
Media converters	$ 5,730,000	$ 6,262,000
Ethernet switches	930,000	933,000
Ethernet adapters	119,000	839,000
Other products	1,311,000	1,715,000
	$ 8,090,000	$ 9,749,000

Sales in North America decreased 22% or $1,491,000 due mainly to a slowdown in federal government and enterprise business segments. International sales decreased $168,000, or 6%, mainly due to lower circuit emulation and service contract sales out of the United Kingdom site. Sales of media converters decreased 8% or $532,000 due to a decline in domestic sales resulting from competitive pricing pressures and project timing. Sales of Ethernet adapters decreased 86% or 720,000 due to the slowing of government business and project timing.

Gross margin on first quarter Transition Networks' sales decreased 28% to $3,405,000 in 2015 from $4,706,000 in 2014. Gross margin as a percentage of sales decreased to 42.1% in 2015 from 48.3% in 2014 due to unfavorable product mix and pricing pressure. Selling, general and administrative expenses increased 5% to $5,462,000, or 67.5% of sales, in 2015 compared to $5,180,000, or 53.1% of sales, in 2014 due to increased global selling expenses to support our product development initiatives. Operating loss was $2,057,000 in 2015 compared to a loss of $712,000 in 2014.

JDL Technologies Results

JDL Technologies sales decreased 66% to $865,000 in the first quarter of 2015 compared to $2,567,000 in 2014.

JDL's revenues by customer group were as follows:

	JDL Revenue by Customer Group	
	2015	2014
Broward County FL schools	$ 328,000	$ 1,930,000
Miami Dade County FL schools	0	99,000
All other	537,000	538,000
	$ 865,000	$ 2,567,000

Revenues earned from Broward County Public Schools decreased $1,602,000 or 83% in the first quarter of 2015 as compared to the 2014 first quarter due to E-Rate funding not yet being available in the 2015 period. The Schools and Library Department is expected to provide confirmation of E-Rate awards by the third quarter of 2015. As E-Rate represents significant savings for the district, all E-Rate eligible purchases are on hold until funding commitments are released. In the first quarter of 2015, the Broward County School District awarded JDL Technologies new contracts for information technology services and infrastructure, with revenues expected to be realized beginning in the second quarter of 2015. The contracts are valued at approximately $83 million over the five-year contract period.

Absence of further revenues from Miami-Dade County Public Schools reflects completion of that district's wireless classroom initiative, which had been funded under the E-Rate program. Revenue from JDL Technologies' sales to small and medium-sized commercial businesses (SMBs) remained flat at $537,000.

Gross margin decreased 95% to $41,000 in the first quarter of 2015 compared to $791,000 in the same period in 2014. Gross margin as a percentage of sales decreased to 4.8% in 2015 from 30.8% in 2014 due to changes in revenue mix from 2014 to 2015. Selling, general and administrative expenses increased 18% in 2015 to $810,000, or 93.6% of sales, compared to $685,000, or 26.7% of sales, in 2014. Selling, general and administrative expenses as a percentage of sales were much higher in the 2015 period as JDL's non-variable general and administrative expenses constituted a much higher percentage of the lower 2015 sales. Reflecting the first quarter 2015 revenue decline, JDL Technologies reported an operating loss of $769,000 in the first quarter of 2015 compared to operating income of $107,000 in the same period of 2014.

Other

The Company's loss before income taxes increased to $5,637,000 in 2015 compared to a loss of $265,000 in 2014. The Company's effective income tax rate was 26.1% in 2015 and 46.9% in 2014. This effective tax rate for 2015 differs from the federal tax rate of 35% due to state income taxes, foreign tax rate differences, foreign losses not deductible for U.S. income tax purposes and provisions for interest charges for uncertain income tax positions.

Liquidity and Capital Resources

As of March 31, 2015, the Company had approximately $24,613,000 in cash, cash equivalents and investments. Of this amount, $442,000 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 that are fully insured through the FDIC. The Company also had $15,463,000 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 March 31, 2015.

The Company had working capital of $52,014,000, consisting of current assets of approximately $65,767,000 and current liabilities of $13,753,000 at March 31, 2015 compared to working capital of $56,911,000, consisting of current assets of $69,906,000 and current liabilities of $12,995,000 at December 31, 2014.

Cash flow used by operating activities was approximately $2,311,000 in 2015 compared to $5,823,000 provided in the same period of 2014. Significant working capital changes from December 31, 2014 to March 31, 2015 included a decrease in receivables of $2,957,000 due to lower revenues in the first quarter of 2015 as compared to the last quarter of 2014, and an increase in JDL-related inventory and related accounts payable due to a large order at JDL.

Net cash used in investing activities was $96,000 in 2015 compared to $5,978,000 used in the same period of 2014, primarily because of large net investments in the 2014 period. The Company continued to make capital investments in 2015, specifically within Suttle's manufacturing operations.

Net cash used by financing activities was $1,536,000 in 2015 compared to $2,027,000 in the same period of 2014. Cash dividends paid on common stock increased to $1,395,000 in 2015 ($0.16 per common share) from $1,369,000 in 2014. Proceeds from common stock issuances, principally shares sold to the Company's Employee Stock Ownership Plan and issued under the Company's Employee Stock Purchase Plan, totaled approximately $43,000 in 2015 and $36,000 in 2014. The Company did not repurchase any shares in 2015 or 2014 under the Board authorized program. At March 31, 2015, Board of Director authority to purchase approximately 411,910 additional shares remained in effect. The Company acquired $51,000 and $0 in 2015 and 2014, 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% (1.4% at March 31, 2015). There were no borrowings on the line of credit at March 31, 2015 or 2014. The credit agreement expires October 31, 2016 and is secured by assets of the Company.

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.

Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are discussed in our 2014 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 three months ended March 31, 2015.

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

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard update on revenue recognition from contracts with customers. The new guidance will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. According to the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The standard is effective for the Company's first quarter of 2017. Early adoption is not permitted. Implementation may be either through retrospective application to each period from the first quarter of 2015 or with a cumulative effect adjustment upon adoption in 2017. Additional disclosures will also be required under the new standard. In April 2015, the FASB issued a proposal that, if approved, would extend the required implementation date one year to the first quarter of 2018 but also would permit companies to adopt the standard at the original effective date of 2017. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

The vast majority of our transactions are denominated in U.S. dollars; as such, fluctuations in foreign currency exchange rates have historically not been material to the Company. At March 31, 2015 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. Controls 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.

Except as set forth below, 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.

During the quarter ended March 31, 2015, we implemented a new ERP system within our Suttle business unit. The ERP system is designed to strengthen our long-term performance by standardizing all CSI business units on a common platform. The system changes were not being made in response to any material weakness in our internal controls. This implementation has resulted in some changes to business processes and internal control over financial reporting. We have taken steps to monitor and maintain appropriate internal control over financial reporting and will continue to evaluate the operating effectiveness of related controls during future periods.

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**
January 2015	—	$ —	—	411,910
February 2015	—	—	—	411,910
March 2015	4,367	11.60	—	411,910
Total	4,367	$ 11.60	—	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
On May 7, 2015, Communications Systems, Inc., JDL Technologies, Inc., Transition Networks, Inc. and Suttle, Inc. entered in the Fourth Amendment to Credit Agreement and Waiver of Default with Wells Fargo Bank, National Association.

Item 6. Exhibits.

The following exhibits are included herein:

10.1 Amended and Restated Revolving Note dated as of May 7, 2015 from Communications Systems, Inc., JDL Technologies, Inc., Transition Networks, Inc., and Suttle, Inc. to Wells Fargo Bank, National Association.

10.2 Fourth Amendment to Credit Agreement and Waiver of Default dated as of May 7, 2015 between Communications Systems, Inc., JDL Technologies, Inc., Transition Networks, Inc., and Suttle, Inc. and Wells Fargo Bank, National Association.

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 May 5, 2015 announcing 2015 First Quarter Results.

Signatures

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
Chief Executive Officer

Date: May 7, 2015

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

Date: May 7, 2015

Exhibit 10.1

AMENDED AND RESTATED REVOLVING NOTE

$10,000,000 May 7, 2015

FOR VALUE RECEIVED, the undersigned COMMUNICATIONS SYSTEMS, INC., a Minnesota corporation (**"Communications Systems"**), JDL TECHNOLOGIES, INCORPORATED, a Minnesota corporation (**"JDL"**), TRANSITION NETWORKS, INC., a Minnesota corporation (**"Transition Networks"**), and SUTTLE, INC., a Minnesota corporation (**"Suttle"**; together with Communications Systems, JDL and Transition Networks, **"Borrowers"** and each a **"Borrower"**), promises to pay on November 1, 2016 (the **"Maturity Date"**) to WELLS FARGO BANK, NATIONAL ASSOCIATION (**"Bank"**) at its office at MAC N9305-187, 90 South Seventh Street, Minneapolis, Minnesota, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of $10,000,000, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "**Daily One Month LIBOR**" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(b) "**LIBOR**" the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by Bank from another recognized source or interbank quotation).

(c) "**London Business Day**" means any day that is a day for trading by and between banks in Dollar deposits in the London interbank market.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be 1.75% above Daily One Month LIBOR in effect from time to time. Bank is hereby authorized to note the date and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Taxes and Regulatory Costs. Borrowers shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrowers hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing June 1, 2015.

(d) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrowers may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrowers, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on the Maturity Date.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of any officer of any Borrower, until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrowers regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrowers.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement among Borrowers and Bank dated as of October 28, 2011, as amended by that certain First Amendment to Credit Agreement and Waiver of Event of Default dated as of November 28, 2012, that certain Second Amendment to Credit Agreement and Waiver of Event of Default dated as of November 14, 2013, that certain Third Amendment to Credit Agreement and First Amendment to Amended and Restated Revolving Note dated as of October 31, 2014 and that certain Fourth Amendment to Credit Agreement and Waiver of Event of Default of even date herewith (as the same has been and may be further amended, restated, supplemented or otherwise modified from time to time, the **"Credit Agreement"**). Any default in the payment or performance of any obligation under this Note, or the occurrence of any Event of Default (as defined in the Credit Agreement) under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrowers shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrowers or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota.

(d) Amendment and Restatement. This Note amends and restates in its entirety that certain Amended and Restated Revolving Line of Credit Note dated as of November 28, 2012 issued by the Borrowers in the original principal amount of $10,000,000, as amended by that certain Third Amendment to Credit Agreement and First Amendment to Amended and Restated Revolving Note dated as of October 31, 2014 (as amended to date, the **"Prior Note"**). This Note is issued in substitution for and in replacement of, but not in payment or novation of, the obligations of Borrowers under the Prior Note.

Signature page follows

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

COMMUNICATIONS SYSTEMS, INC.

By: ____________________
Name: ____________________
Title: ____________________

JDL TECHNOLOGIES, INCORPORATED

By: ____________________
Name: ____________________
Title: ____________________

TRANSITION NETWORKS, INC.

By: ____________________
Name: ____________________
Title: ____________________

SUTTLE, INC.

By: ____________________
Name: ____________________
Title: ____________________

Exhibit 10.2

FOURTH AMENDMENT TO CREDIT AGREEMENT AND WAIVER OF EVENT OF DEFAULT

This Fourth Amendment to Credit Agreement and Waiver of Event of Default (this "Amendment"), dated as of May 7, 2015, is entered into by and between COMMUNICATIONS SYSTEMS, INC., a Minnesota corporation (**"Communications Systems"**), JDL TECHNOLOGIES, INCORPORATED, a Minnesota corporation (**"JDL"**), TRANSITION NETWORKS, INC., a Minnesota corporation (**"Transition Networks"**), and SUTTLE, INC., a Minnesota corporation (**"Suttle"**; together with Communications Systems, JDL and Transition Networks, **"Borrowers"** and each a **"Borrower"**), and WELLS FARGO BANK, NATIONAL ASSOCIATION (**"Bank"**).

RECITALS

Borrowers and Bank are parties to a Credit Agreement dated as of October 28, 2011, as amended by a First Amendment to Credit Agreement and Waiver of Event of Default dated as of November 28, 2012, a Second Amendment to Credit Agreement and Waiver of Event of Default dated as of November 14, 2013 and a Third Amendment to Credit Agreement and First Amendment to Amended and Restated Revolving Note dated as of October 31, 2014 (as so amended, and as the same may be further amended, restated, supplemented or otherwise modified from time to time, the **"Credit Agreement"**). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

Borrowers have requested that Bank agree to certain amendments to the Credit Agreement, and Bank has agreed to make such amendments on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. **Definitions**. Capitalized terms used in this Amendment (including in the Recitals) have the meanings given to them in the Credit Agreement unless otherwise expressly defined in this Amendment.

2. **Amendments to Credit Agreement**.

(a) Section 1.2(c) of the Credit Agreement is hereby amended to replace the phrase "0.125%" contained therein with the phrase "0.25%".

(b) Section 4.9 of the Credit Agreement is hereby amended to add the following new clause (c) to the end thereof, to read as follows:

> (c) Maintain Cash of not less than $15,000,000 at all times. As used in this clause (c),**"Cash"** means "Cash and cash equivalents," "short-term investments," and "long-term investments," as computed in accordance with Generally Accepted Accounting Principles and reported by Communications Systems in its periodic filings with the United States Securities and Exchange Commission.

3. **No Other Changes**. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement, the Revolving Note and the other Loan Documents remain in full force and effect.

4. **Waiver of Existing Event of Default**. As a result of the failure of Borrowers to maintain a minimum Net Profit of $3,000,000 as of the quarter ending March 31, 2015, as required by Section 4.9(a)(ii) of the Credit Agreement, an Event of Default has occurred under Section 6.1(c) of the Credit Agreement (the **"Known Event of Default"**). Upon the terms and subject to the conditions set forth in this Amendment, Bank hereby waives the Known Event of Default. This waiver shall be effective only in this specific instance and for the specific purpose for which it is given, and this waiver shall not entitle Borrowers to any other or further waiver in any similar or other circumstances.

5. **Amendment Fee**. Borrowers agree to Bank, a fully-earned, non-refundable fee of $45,000 (the **"Amendment Fee"**), in consideration of the amendments and waiver granted hereunder. Borrowers and Bank acknowledge and agree that the Amendment Fee will be paid by Borrowers to Bank in immediately available funds on the earlier of (a) August 15, 2015 and (b) the occurrence of an Event of Default or discovery of the existence of any Event of Default not expressly waived prior to the date of this Amendment. Borrowers and Bank agree, however, that the Amendment Fee will not be due and payable if prior to August 15, 2015, either (i) the Borrowers terminate the Line of Credit and indefeasibly pay in full all debts, liabilities and obligations owed by Borrowers to Bank, or (ii) Borrowers and Bank enter into a new amendment to the Credit Agreement that establishes new or revised financial covenants and expressly waives the Amendment Fee.

6. **Conditions Precedent**. This Amendment shall be effective when Bank shall have received an executed counterpart of this Amendment, together with each of the following, each in form and substance acceptable to Bank:

(a) an Amended and Restated Revolving Note (the **"Amended Note"**), duly executed by each Borrower;

(b) a Joinder Agreement, reflecting the joinder of Suttle to the Credit Agreement and each other Loan Document as a Borrower thereunder, duly executed by Suttle;

(c) a certificate of the secretary of each Borrower: (a) attaching resolutions of the Board of Directors of such Borrower authorizing the execution, delivery and performance by such Borrower of the Loan Documents, including this Amendment, the Joinder Agreement (solely with respect to Suttle) and the Amended Note, (b) certifying that the articles of incorporation of such Borrower delivered by such Borrower to Bank on October 28, 2011 have not been amended or changed in any respect or, if there has been any amendment or change or if such articles have not yet been delivered to Bank, certifying that attached to such certificate is a current copy of such articles of incorporation (certified by the Secretary of State of formation), (c) certifying that the bylaws of such Borrower delivered by such Borrower to Bank on October 28, 2011 have not been amended or changed in any respect or, if there has been any amendment or change or if such bylaws have not yet been delivered to Bank, certifying that attached to such certificate is a current copy of such bylaws of such Borrower (if any such bylaws exist), and (d) containing the names of the officer or officers of such Borrower authorized to sign the Loan Documents, including this Amendment, the Joinder Agreement (solely with respect to Suttle) and the Amended Note, together with a sample of the true signature of each such officer, or, if applicable, affirming that each officer or officers previously certified to Bank on October 28, 2011 remain so authorized; together with current good standing certificate for each Borrower; and

(d) such other matters as Bank may reasonably require.

7. **Representations and Warranties**. Borrowers hereby represent and warrant to Bank as follows:

(a) Each Borrower has all requisite power and authority to execute this Amendment, the Amended Note and any other agreements or instruments required hereunder and to perform all of its obligations hereunder, and the Credit Agreement, as amended by this Amendment, and the other Loan Documents to which such Borrower is a party have been duly executed and delivered by such Borrower and constitute the legal, valid and binding obligations of such Borrower, enforceable in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally.

(b) The execution, delivery and performance by such Borrower of Credit Agreement, as amended by this Amendment, and the other Loan Documents to which such Borrower is a party have been duly authorized by all necessary corporate action and do not (i) violate any material provision of federal, state, or local law or regulation applicable to such Borrower, the governing documents of such Borrower, or any order, judgment, or decree of any court or other governmental authority binding on such Borrower, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any contract, obligation, indenture or other instrument to which any Borrower is a party or by which any Borrower may be bound, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any assets of any Borrower, or (iv) require any approval of such Borrower's shareholders or any approval or consent of any other person or entity.

(c) All of the representations and warranties contained in Article II of the Credit Agreement are correct on and as of the date hereof as though made on and as of the date hereof, except to the extent that such representations and warranties relate solely to an earlier date.

8. **References**. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended by this Amendment; and any and all references in the other Loan Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended by this Amendment. All references in the Credit Agreement and each other Loan Document to "the Revolving Note" shall be deemed to refer to the Amended Note.

9. **No Other Waiver**. Except as expressly set forth therein, the execution of this Amendment and the acceptance ofall other agreements and instruments related hereto shall not be deemed to be a waiver of any default or Event of Default under the Credit Agreement or a waiver of any breach, default or event of default under any other Loan Document, whether or not known to Bank and whether or not existing on the date of this Amendment.

10. **Release**. Each Borrower hereby absolutely and unconditionally releases and forever discharges Bank, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description arising under, in connection with or related to any of the debts, liabilities or obligations of Borrowers and/or any Borrower under any of the Loan Documents or any of the Loan Documents, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which Borrowers and/or any Borrower has had, now has or has made claim to have against any such person or entity for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

11. **Costs and Expenses**. Borrowers hereby reaffirm their agreement under Section 7.3 of the Credit Agreement to pay or reimburse Bank with respect to its costs, expenses and fees, including, without limitation, all reasonable fees and disbursements of legal counsel incurred the Bank in connection with this Amendment.

12. **Miscellaneous**. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument. Delivery of an executed signature page of this Amendment by facsimile transmission or in a pdf or similar electronic file shall be effective as delivery of a manually executed counterpart thereof.

Signature page follows

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

BORROWERS:

COMMUNICATIONS SYSTEMS, INC.

By: ____________________
Name: ____________________
Title: ____________________

JDL TECHNOLOGIES, INCORPORATED

By: ____________________
Name: ____________________
Title: ____________________

TRANSITION NETWORKS, INC.

By: ____________________
Name: ____________________
Title: ____________________

SUTTLE, INC.

By: ____________________
Name: ____________________
Title: ____________________

BANK:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: ______________________________
Name: ______________________________
Title: ______________________________

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
Chief Executive Officer

Date: May 7, 2015

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: May 7, 2015

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 March 31, 2015, 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: May 7, 2015	Chief Executive Officer
	By /s/ Edwin C. Freeman
	Edwin C. Freeman
Date: May 7, 2015	Chief Financial Officer

Exhibit 99.1

FOR IMMEDIATE RELEASE

COMMUNICATIONS SYSTEMS, INC. REPORTS FIRST QUARTER 2015 FINANCIAL RESULTS

DECLARES QUARTERLY CASH DIVIDEND OF $0.16 PER SHARE

Minnetonka, MN – May 5, 2015 – 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 first quarter ("Q1") ended March 31, 2015, including a discussion of results of operations by segment.

First Quarter 2015 Summary

- Q1 2015 consolidated sales of $19.5 million compared to $25.2 million in Q1 2014.
- Q1 2015 net loss was $4.2 million, or $(0.48) per diluted share, compared to a net loss of $0.1 million, or $(0.02) per diluted share, in Q1 2014.
- Declares cash dividend of $0.16 per common share.

Segment Overview

- Suttle results were affected by lower sales of legacy products and associated product transition; results are expected to improve beginning Q2 2015 with a more favorable sales environment returning in the second half of 2015.
- Transition Networks results reflect ongoing repositioning of business and investments in new product development and professional staff.
- JDL Technologies operations reflect the absence of E-Rate funding, which is expected to be reinstated in September 2015; segment results are expected to improve beginning in Q2 2015 with commencement of sales under a five-year contract, with an estimated value of $83 million, from School Board of Broward County.

Financial Position

- CSI's balance sheet at March 31, 2015 included cash, cash equivalents, and investments of $24.6 million, working capital of $52.0 million, and stockholders' equity of $81.0 million.

CSI's Chief Executive Officer Roger H.D. Lacey commented, "Our Q1 2015 results were affected by a combination of factors that we believe will begin to be resolved starting in Q2 2015. Although disappointing, we do not believe that our Q1 performance reflects our overall health as a company, and does not reflect the optimism we have for the balance of 2015 and beyond. We expect that our results will improve beginning in Q2 2015 as JDL Technologies commences work under its new five-year contract with the School Board of Broward County and as Suttle makes measured progress working through this product transition cycle, begins to realize higher sales of new products, and broadens its customer base."

He continued, “At Suttle, reduced sales and reduced margins on passive legacy products associated with a large tier-1 telecommunications service customer significantly affected results. This customer’s product transition, while not unexpected, occurred sooner and faster than we had anticipated. We have taken decisive steps, including reducing costs at our manufacturing facilities, to return Suttle to profitability in the second half of 2015.

“We expect a more favorable sales environment for Suttle in the second half of 2015, supported by new product sales growth and an expanding customer base, particularly in the FTTx (fiber to the home or node) market. FTTx products, as a group, increased by 32% in Q1 2015 and we continue to innovate in this category. We have expanded our fiber manufacturing operations and laboratories in Costa Rica and believe this will enhance our growth in new products and provide some margin relief. We received new orders in Q2 2015 for our recently launched MediaMax™ suite of solutions, and we are developing several new state-of-the-art FutureLink™ G.hn and G.fast products, some of which are already on the market and have been well received by customers. Our strategy to invest in new product development, while diversifying our customer base, remains firmly in place and we believe that Suttle is very well positioned to benefit from our clients’ continuing deployment of high-speed networks.

“At Transition Networks, the Q1 2015 revenue decline reflects our mature product line and delays in federal spending. Our operating loss also reflects our ongoing repositioning of the business and our increased investment in R&D and professional engineering staff. We are seeing early successes from this initiative as we recently have received a significant multiyear commitment from a large carrier customer. Throughout 2015, Transition Networks will continue to invest in the development of new products that address higher-growth markets. At the moment, we are developing a variety of new carrier Ethernet products and core media conversion solutions that serve important client needs in our North America and global markets. We remain positive that the investments we are making in 2015 will position Transition Networks for long-term sustainable growth and profitability.”

Mr. Lacey concluded, “At JDL Technologies, lower revenues and a wider operating loss in Q1 2015 reflected the temporary lull created by E-Rate program funding constraints combined with our advanced preparation for work that commenced subsequent to quarter-end on the five-year contract with School Board of Broward County. We commenced work on this project in early Q2 2015, and we expect a significant, positive impact on JDL Technologies’ results beginning in Q2 2015. Our long-term view for JDL Technologies has never been better. Not only is the segment fully-scaled for the scheduled return of the E-Rate funding program in September 2015, it is gaining traction in managed services, driven by an increase in HIPAA-compliant IT services to the Florida healthcare market, where we are a leading provider.”

Mr. Curtis A. Sampson, CSI’s Chairman and founder, added, “Despite some headwinds, I remain supportive of the steps we are taking to position each of CSI’s businesses for consistent growth and profitability. We are pursuing exciting new product cycles in our manufacturing segments while growing our managed services recurring revenue stream and preparing for a significant ramp-up in our core educational vertical at JDL Technologies. We continue to have a strong balance sheet with approximately $25 million in cash, cash equivalents and investments, providing us with flexibility to pursue attractive opportunities as they arise. As a result of our efforts I believe we will exit 2015 in a much stronger position than we started the year.”

Segment Financial Overview

See the Form 10-Q to be filed on May 7, 2015 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 Solutions™ brand in the United States and internationally;

- Transition Networks manufactures media converters, network interface devices (NIDs), 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 March 31	
	2015	2014
Sales	$ 10,590,000	$ 12,882,000
Gross profit	1,441,000	3,490,000
Operating (loss) income	(2,865,000)	353,000

Suttle's Q1 2015 sales declined 18% from Q1 2014, primarily due to a decrease in legacy products sales, which more than offset an increase in revenue generated from FTTx product platforms. FTTx product sales, as a group, increased 32% to $1.6 million from $1.2 million in Q1 2014.

Sales to the major communication service providers declined 19% to $8.7 million from $10.8 million in Q1 2014, and comprised 82% of total segment revenues, compared to 84% in Q1 2014. Lower sales to communications service providers primarily reflected both a disrupted order cycle at a major customer that significantly curtailed its purchasing in Q1 2015 and an overall decline in legacy product lines, which more than offset Suttle's growth in core high-speed copper connectivity products and its success in securing new business in multiple FTTx domains. Sales to distributors decreased 46% in Q1 2015 due to a continued decline in legacy product lines. Suttle's international sales increased 47% to $1.0 million from $0.7 million in Q1 2014, primarily driven by increased sales of DSL products for a major international customer.

Gross profit in Q1 2015 declined 59% to $1.4 million, or 13.6% of sales, from $3.5 million, or 27.1% of sales, in Q1 2014. Gross profit as a percentage of sales decreased due to a series of factors, including pricing pressure from a major customer, a relatively high production cost variance due to decreased demand, and higher allocation of overhead to cost of goods sold resulting from recent investment into production capabilities to support new FTTx product platforms.

Operating loss totaled $2.9 million compared to operating income of $0.4 million in Q1 2014, reflecting lower gross profit and a $1.2 million increase in selling, general and administrative ("SG&A") expense. Higher SG&A expense primarily reflects incremental investment into fiber and active capabilities to support new product platforms. Research and development expenses increased to $1.4 million in Q1 2015, from $0.7 million in Q1 2014, as Suttle continues to invest in enhancing existing products and developing new products.

Transition Networks

	Three Months Ended March 31	
	2015	2014
Sales	$ 8,090,000	$ 9,749,000
Gross profit	3,405,000	4,706,000
Operating loss	(2,057,000)	(712,000)

Transition Networks' Q1 2015 sales declined 17% to $8.1 million from $9.7 million in Q1 2014, reflecting lower sales in North America and EMEA markets. By product category, sales of Ethernet adapters decreased 86%, or $0.7 million, due to project timing related to government projects. Media converter sales represented 71% of total business unit sales in Q1 2015, up from 64% of total business unit sales in Q1 2014. We expect an improving business environment for this segment starting in Q2 2015.

Gross profit decreased 28% to $3.4 million, or 42.1% of sales, from $4.7 million, or 48.3% of sales, in Q1 2014. The decline in gross margin as a percentage of sales was due to unfavorable product mix and pricing pressure.

Operating loss totaled $2.1 million compared to an operating loss of $0.7 million in Q1 2014, reflecting lower gross profit and a $0.3 million increase in SG&A expense. Higher SG&A expense primarily reflects increased global selling expenses to support our product development initiatives.

JDL Technologies

	Three Months Ended March 31	
	2015	2014
Sales	$ 865,000	$ 2,567,000
Gross profit	41,000	792,000
Operating (loss) income	(769,000)	107,000

Results at JDL Technologies continued to be affected by the federal government's decision to delay all priority two E-Rate funding in 2014 and the first part of 2015 while the E-Rate program underwent an extensive modernization project that affected 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. The Company expects funding under the E-Rate program will be reinstated in September 2015.

Q1 2015 sales declined 66% to $0.9 million from $2.6 million in Q1 2014, primarily reflecting a $1.6 million decrease in revenues from Broward County Public Schools.

In Q1 2015, JDL Technologies was awarded a new contract by the School Board of Broward County to provide Local Area Network, Wireless Local Area Network and data center upgrades, among other IT services, to the public K-12 schools of Broward County, Florida. The Company estimates that the contract has the potential to generate approximately $83 million of revenues over the five-year life of the contract. JDL Technologies commenced work on this contract in April 2015.

In March 2015, JDL's managed services business reached an annual recurring revenue run rate of approximately $1.4 million, primarily driven by strong demand for its HIPAA-Compliant IT services and expansion into the financial and legal verticals.

Q1 2015 gross profit declined 95% to $41,000, or 4.8% of sales, from $0.8 million, or 30.8% of sales, in Q1 2014, primarily due to the lower level of revenue.

Operating loss was $0.8 million compared to operating income of $0.1 million in Q1 2014.

Quarterly Dividend

CSI's Board of Directors declared a cash dividend of $0.16 per common share payable on July 1, 2015 to shareholders of record as of June 15, 2015. This marks the 51st consecutive quarter that CSI has paid a dividend to its shareholders.

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 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 presented in the Company's Annual Report on Form 10-K and, from time to time, in the Company's other filings with the Securities and Exchange Commission. The information set forth herein should be read 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.

Contacts:

Communications Systems, Inc.
Edwin C. Freeman
Chief Financial Officer
952-996-1674
efreeman@commsysinc.com

Roger H. D. Lacey
Chief Executive Officer
952-996-1674

The Equity Group Inc.
Devin Sullivan
Senior Vice President
212-836-9608
dsullivan@equityny.com

Kalle Ahl, CFA
Senior Associate
212-836-9614
kahl@equityny.com

CSI CONSOLIDATED SUMMARY OF EARNINGS

Selected Income Statement Data

	Unaudited Three Months Ended	
	Mar. 31, 2015	Mar. 31, 2014
Sales	$ 19,544,936	$ 25,198,406
Gross profit	4,886,938	8,988,016
Operating loss	(5,691,238)	(251,934)
Loss before income taxes	(5,637,209)	(264,889)
Income tax benefit	(1,473,732)	(124,306)
Net loss	$ (4,163,477)	$ (140,583)
Basic net loss per share	$ (0.48)	$ (0.02)
Diluted net loss per share	$ (0.48)	$ (0.02)
Cash dividends per share	$ 0.16	$ 0.16
Average basic shares outstanding	8,660,819	8,565,426
Average dilutive shares outstanding	8,660,819	8,565,426

Selected Balance Sheet Data

	Unaudited	
	Mar. 31, 2015	Dec. 31, 2014
Total assets	$ 95,799,932	$ 100,286,235
Cash, cash equivalents & investments	24,613,184	29,879,835
Working capital	52,014,833	56,910,880
Property, plant and equipment, net	18,437,556	18,153,152
Long-term liabilities	1,079,511	1,270,876
Stockholders’ equity	80,967,921	86,020,498