



CSI

Communications Systems, Inc.

Annual Report 2009



About Communications Systems, Inc.

Communications Systems, Inc. is a global company with design, production and distribution facilities around the world that provides a growing family of physical and electronic connectivity infrastructure and services for voice, data and video communications. The Company's product families include a broad range of copper-based and fiber optic connection devices, digital subscriber line filters and connection devices, structured wiring systems that support Local Area Networks, media conversion devices and switches.

FINANCIAL HIGHLIGHTS

(in thousands except per share amounts)

	2009	2008	2007
Sales	\$ 109,792	\$ 122,700	\$ 121,243
Gross Margin	41,849	46,692	42,886
Operating Income	10,219	10,584	10,263
Net Income	6,044	6,611	7,511
Basic Net Income (Loss) per Share:	\$.72	\$.77	\$.86
Diluted Net Income (Loss) per Share:	\$.72	\$.77	\$.85
Average Dilutive Shares Outstanding	8,352	8,563	8,831
Working Capital	\$ 64,213	\$ 70,728	\$ 68,999
Total Assets	102,914	98,738	100,760
Stockholders' Equity	85,939	83,728	84,931

Forward-Looking Statements

From time to time, in this report and otherwise, the Company makes "forward-looking statements" concerning possible or anticipated future financial performance, business activities, plans, resolution of pending claims, investigations, or litigation which are typically preceded by the words "believes", "expects", "anticipates", "intends" or similar expressions. For such 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 such forward-looking statements are subject to risks and uncertainties which could cause actual performance, activities, anticipated results, outcomes or plans to differ significantly from those indicated in the forward-looking statements, including those risks and uncertainties described under Item 1A of the enclosed Annual Report on Form 10-K.

To Our Shareholders



CSI



2009 IN REVIEW

2009 was an interesting and very challenging year for Communications Systems, Inc. (CSI). Coming off the best year in CSI's 40-year history in 2008, we were cautiously optimistic about 2009. It was a hard act to follow. CSI had a good year in 2009 and, in fact, was recognized twice during the year by two nationally-known organizations.

In May 2009, CSI was selected to be included in the Russell 2000. The Russell 2000 is the most well known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of 2000 small companies in terms of market capitalization.

In October 2009, CSI was selected to be one of *Forbes Magazine's* "200 Best Small Companies in America". This is what *Forbes* had to say: 'Despite a rough economy and other forces that took the NASDAQ to its 6-year low, this year's *Forbes* 200 Best Small Companies is a stellar bunch of up-and-comers. Although some companies have experienced rough waters over the past few years, such as a slip in sales and earnings, their balance sheets indicate they have the muscle to remain viable entities over the long term. Each company on the list has earned its place and is, indeed, good enough to be called "One of the best."'

CSI saw the world economy continue to weaken during the first quarter of 2009, especially the international business for Transition Networks and Austin Taylor business units. The challenges were apparent and although we were not able to maintain growth in revenue and operating profit as we planned, our business units did a good job of managing assets and investments. This resulted in three of the four business units, JDL, Suttle and Transition Networks, reporting profitable results in 2009.

STRONG FINANCIAL POSITION

CSI continued its history of generating strong cash flows. Net cash from operations in 2009 was \$17,637,000 compared to \$10,222,000 in 2008. At December 31, 2009, CSI's cash, cash equivalents and investments were \$40,069,000 compared to \$29,952,000 at the end of 2008 despite using approximately \$4.6 million in cash for stock dividends and stock buy-back programs during the year. CSI continued to pay our shareholders' dividends and paid out \$0.52 per share in dividends during 2009.

POSITIVE OUTLOOK 2010

As the world economies heal themselves, CSI remains committed to the expansion of our global presence and the continuation of strategic initiatives. We will build on our strong brand names, protect and grow our core businesses, leverage our business units' capabilities, and play a role of expansion through acquisition. Long term we will grow through product and market diversification, and continue to seek strategic partnerships and alliances. We will bring new and innovative solutions to our current and future customers.

IN SUMMARY

2009 was a good year for CSI despite a severe decline in residential and commercial construction and a global recession which significantly affected our revenue. We reduced the impact to our bottom line through cost controls and other measures.

Like most companies 2010 is expected to be challenging given the current economic climate. CSI has a strong balance sheet and liquidity to navigate these difficult times.

Our employees are doing an outstanding job of managing through these challenges while continuing to prepare CSI and its business units for growth and increased profitability.

To our shareholders, employees, customers and partners: Thank You for your continued support.

Sincerely,



Jeffrey K. Berg





CSI Board Members (Left to Right): Jeffrey K. Berg, Roger H.D. Lacey, Luella G. Goldberg, Gerald D. Pint, Curtis A. Sampson, Edwin C. Freeman & Randall D. Sampson

BOARD OF DIRECTORS

Curtis A. Sampson	.....Chairman of the Board
Jeffrey K. Berg	.....President and Chief Executive Officer
Edwin C. Freeman	.....Vice President and General Manager, Bro-Tex, Inc.
Luella G. Goldberg	.....Director - TCF Financial, ING Group and Hormel Foods
Roger H.D. Lacey	.....Vice President - Corporate Strategy & Marketing Development, 3M
Gerald D. Pint	.....Retired Vice President - Telecom Systems Group, 3M
Randall D. Sampson	.....President and Chief Executive Officer, Canterbury Park Holding Corporation

OFFICERS

Jeffrey K. Berg	.....President and Chief Executive Officer
David T. McGraw	.....Chief Financial Officer
Karen Nesburg Bleick	.....Vice President – Human Resources
Michael J. Skucius	.....Vice President and General Manager – JDL Technologies
William G. Schultz	.....Vice President and General Manager – Transition Networks
Bruce C. Blackwood	.....Vice President and General Manager – Suttle
Vincent J. Geraci	.....Managing Director – Austin Taylor

The Company maintains a website at www.commsystems.com. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our periodic reports on Form 8-K (and any amendments to these reports) are available free of charge by linking from our website to the Securities & Exchange Commission website.

COMMON STOCK INFORMATION

The Company's common stock is traded on the *National Association of Securities Dealers Automated Quotations* ("NASDAQ") under the trading symbol JCS.

The table below presents the range of high and low trading prices for the Company's stock for 2009 and 2008 as reported by NASDAQ.

	2009		2008	
Quarter	High	Low	High	Low
First	\$9.54	\$6.95	\$12.15	\$9.75
Second	\$11.96	\$7.52	\$11.75	\$10.02
Third	\$13.05	\$9.61	\$11.62	\$9.61
Fourth	\$13.70	\$10.47	\$11.00	\$6.93

STRONG DIVIDEND HISTORY CONTINUES

CSI continued its strong history of paying out dividends to shareholders as the Board declared a cash dividend of \$.12 paid January 1, 2009 and April 1, 2009 and a dividend of \$.14 on July 1, 2009 and October 1, 2009. By written action taken by the Board on March 10, 2010, a dividend of \$.14 per share was declared for payment on April 1, 2010.



100 YEARS OF SUTTLE

In 2010, Suttle is proud to be celebrating its 100th anniversary! Founded in 1910 by Marion C. Suttle, the company that once started as a small telephone and electrical repair shop has since grown to become one of the leading suppliers of residential connectivity to the world's largest service providers.

COMMUNICATIONS SYSTEMS, INC. ANNUAL MEETING OF SHAREHOLDERS

Tuesday, May 18, 2010
10:00 a.m. Central Daylight Time
Communications Systems, Inc.
10900 Red Circle Drive
Minnetonka, MN 55343

CORPORATE INFORMATION

Corporate Headquarters

Communications Systems, Inc.
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952-996-1674

Transfer Agent and Registrar

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800-468-9716

Independent Auditor

Deloitte & Touche LLP
Minneapolis, Minnesota

Corporate Counsel

Lindquist & Vennum P.L.L.P.
Minneapolis, Minnesota



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