COMMUNICATIONS SYSTEMS INC
Form DEF 14A
April 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Communications Systems, Inc.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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(4) Date Filed:

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COMMUNICATIONS SYSTEMS, INC.

10900 Red Circle Drive
Minnetonka, Minnesota 55343

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 22, 2012

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Communications Systems, Inc. (the Company or CSI). The meeting will be held at the Company s offices located at 10900 Red Circle Drive, Minnetonka, Minnesota, on Tuesday, May 22, 2012 beginning at 10:00 a.m., Central Daylight Time, for the following purposes:

1. To elect three directors to hold office until the 2015 Annual Meeting of Shareholders or until their successors are elected and qualified;
2. To ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the year ended December 31, 2012;
3. To cast a non-binding advisory vote on executive compensation;
4. To cast a non-binding advisory vote regarding the frequency of non-binding advisory votes on executive compensation; and
5. To transact any other business that may properly come before the meeting.

The Board of Directors has fixed the close of business on March 27, 2012 as the record date for determination of shareholders entitled to notice of and to vote at the meeting.

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

By Order of the Board of Directors,

David T. McGraw
Secretary

Minnetonka, Minnesota

April 9, 2012

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS:

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

COMMUNICATIONS SYSTEMS, INC.

PROXY STATEMENT FOR MAY 22, 2012
ANNUAL MEETING OF SHAREHOLDERS

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COMMUNICATIONS SYSTEMS, INC.

PROXY STATEMENT

GENERAL INFORMATION

Information Regarding the Annual Meeting

This Proxy Statement is furnished to the shareholders of Communications Systems, Inc. (CSI or the Company) in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the Annual Meeting of Shareholders that will be held at the Company s offices at 10900 Red Circle Drive, Minnetonka, Minnesota, on Tuesday, May 22, 2012, beginning at 10:00 a.m., Central Daylight Time, or at any adjournment or adjournments thereof. The cost of this solicitation will be paid by the Company. In addition to solicitation by mail, officers, directors and employees of the Company may solicit proxies by telephone, email or in person. The Company may also request banks and brokers to solicit their customers who have a beneficial interest in the Company s common stock registered in the names of nominees and will reimburse these banks and brokers for their reasonable out-of-pocket expenses. If you wish to attend our Annual Meeting, directions to our offices are provided under Other Information below.

Solicitation and Revocation of Proxies

Any proxy may be revoked at any time before it is voted by receipt of a proxy properly signed and dated subsequent to an earlier proxy, or by revocation of a proxy by written request or in person at the Annual Meeting. If not so revoked, the shares represented by that proxy will be voted by the persons designated as proxies in favor of the matters indicated. In the event any other matters that properly come before the meeting require a vote of shareholders, the shares represented by the proxies will be voted by persons named as proxies in accordance with their judgment on these matters. The Company s corporate offices are located at 10900 Red Circle Drive, Minnetonka, Minnesota, 55343, and its telephone number is 952-996-1674. We first made this Proxy Statement available to shareholders of the Company on or about April 9, 2012.

Voting Securities and Record Date

Only shareholders of record at the close of business on March 27, 2012 will be entitled to vote at the meeting. As of that date, the Company had outstanding 8,506,735 shares of $.05 par value Common Stock. Each share of common stock is entitled to one vote. Cumulative voting in the election of directors is not permitted. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at the Annual Meeting of Shareholders constitutes a quorum for the transaction of business.

Under Minnesota law and the Company s Articles of Incorporation and Bylaws, if a quorum exists at the meeting, the affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked Withhold authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, but will be counted for purposes of determining whether there is a quorum. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. If, however, the shares present and entitled to vote on any particular item of business would not constitute a quorum for the transaction of business at the meeting, then that item must be approved by holders of a majority of the minimum number of shares that would constitute a quorum. A properly executed proxy marked Abstain with respect to any such matter will not be voted, but will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

For shares held in street name through a broker or other nominee, the broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if a shareholder does not give that shareholder s broker or nominee specific instructions, the shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval, but will be counted as present for the purpose of determining the presence of a quorum.

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CORPORATE GOVERNANCE AND BOARD MATTERS

General

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

You can access our corporate governance charters and other related materials by following links on the Corporate Governance page of our website http://commsysinc.com, or by writing to our Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343, or by sending an e-mail to our Corporate Secretary at DavidM@commsysinc.com.

The Board, Board Committees and Meetings

Meeting Attendance. Our Board of Directors meets regularly during the year to review matters affecting our Company and to act on matters requiring Board approval. Each of our directors is expected to make a reasonable effort to attend all meetings of the Board, applicable committee meetings and our annual meeting of shareholders. During 2011, the Board of Directors met eight times. Each of our directors attended at least 75% of the meetings of the Board and committees on which he or she served, and all directors attended the 2011 Annual Meeting of Shareholders.

Board Committees. Our Board of Directors has established the following committees: Audit, Compensation, Governance and Nominating, Finance and Executive. Only members of the Board serve on these committees. Following is information about each committee.

Audit Committee. The Audit Committee is responsible for the engagement, retention and replacement of the independent registered public accounting firm, approval of transactions between the Company and a director or executive officer unrelated to service as a director or officer, approval of non-audit services provided by the Company s independent registered public accounting firm, oversight of the Company s internal controls and the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters. Deloitte & Touche LLP, the Company s independent registered public accounting firm, reports directly to the Audit Committee. The Audit Committee operates under a formal charter that was most recently amended in August 2011. The current members of the Audit Committee are Edwin C. Freeman (Chair), Luella G. Goldberg and Randall D. Sampson. Mr. Freeman, Ms. Goldberg and Mr. Sampson are each independent under SEC and NASDAQ rules. The Board of Directors has determined that Edwin C. Freeman qualifies as the Committee s financial expert. The Audit Committee met five times during 2011. The report of the Audit Committee is found on page 32.

Compensation Committee. The Compensation Committee is responsible for the overall compensation strategy and policies of the Company; reviews and approves the compensation and other terms of employment of the Company s chief executive officer and other executive officers, subject to final Board approval; oversees the establishment of performance goals and objectives for the Company s executive officers; administers the Company s incentive compensation plans; considers the adoption of other or additional compensation plans; and, provides oversight and final determinations with respect to the Company s 401(k) plan, employee stock ownership plan and other similar employee benefit plans. The Committee operates under a charter approved by the Board of Directors that was most recently amended in June 2008. The current members of the Compensation Committee are Gerald D. Pint (Chair), Edwin C. Freeman, Roger H. D. Lacy and Randall D. Sampson. Each of the members of the Compensation Committee is independent under Nasdaq standards. The Committee met seven times in 2011.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for reviewing the size and composition of the Board, identifying individuals qualified to become Board members, recommending to the Board of Directors nominees to be elected at the annual meeting of shareholders, reviewing the size and composition of the Board committees, facilitating Board self-assessment and reviewing and advising the Board regarding strategic direction and strategic management. The Committee operates under a charter approved by the Board that was last amended in June 2008. The current members of the Governance and Nominating Committee are Luella G. Goldberg (Chair), Roger H. D. Lacey and Gerald D. Pint. Each of the members of the Governance and Nominating Committee is independent under NASDAQ listing standards. The Committee met three times during 2011.

Finance Committee. The Finance Committee is responsible for reviewing and approving the Company s annual business plan and related operating budgets. The Finance Committee interfaces with the Compensation Committee with respect to implementing compensation policies that support the Company s annual business plan. The Finance Committee is also responsible for overseeing and making recommendations about the financial operating policies and procedures relating to matters such as investment of excess cash, management of accounts receivable and inventory, purchases of capital equipment, travel, and employee benefits and perquisites. The current members of the Committee are directors Randall D. Sampson (Chair), Jeffrey K. Berg, Edwin C. Freeman, Curtis A. Sampson, and William G. Schultz. The Finance Committee met three times in 2011.

Executive Committee. Pursuant to Company s bylaws, the Executive Committee has the authority to act on behalf of the Board of Directors and the Company with respect to matters requiring Board action that arise between meetings of the Board or otherwise as it has been authorized to act by the Board of Directors. The current members of the Committee are Curtis A. Sampson (Chair), Jeffrey K. Berg, Luella G. Goldberg, Gerald D. Pint, and William G. Schultz. While members of the Executive Committee engaged in informal consultations during the year, this Committee did not formally meet in 2011.

Director Independence

The Board of Directors has adopted director independence guidelines that conform to the definitions of independence set forth in Section 301 of the Sarbanes-Oxley Act of 2002, Rule 10A-3 under the Securities Exchange Act of 1934 and listing standards of NASDAQ. In accordance with these guidelines, the Board of Directors has reviewed and considered facts and circumstances relevant to the independence of each of our directors and director nominees and has determined that each of the following directors qualifies as independent under NASDAQ listing standards: Edwin C. Freeman, Luella G. Goldberg, Roger H. D. Lacy, Gerald D. Pint and Randall D. Sampson. Three directors are not currently considered independent under NASDAQ listing standards: Curtis A. Sampson does not qualify as independent because of the level of consulting compensation he received in 2010 and earlier years; Jeffrey K. Berg does not qualify as independent because he served as the Chief Executive Officer of the Company within the past three years, and William G. Schultz does not qualify as independent because he is the current Chief Executive Officer of the Company.

Selecting Nominees for Election to the Board

The Governance and Nominating Committee is the standing committee responsible for recommending to the full Board of Directors the nominees for election as directors at our annual shareholder meetings. In making its recommendations, the Committee reviews the composition of the full Board to determine the qualifications and areas of expertise needed to further enhance the composition of the Board, and works with management in attracting candidates with those qualifications. The Committee does not have a formal policy regarding diversity; nevertheless, in making its recommendations, in addition to minimum requirements of integrity, ability to make independent analytical inquiries, personal health and a willingness to devote adequate time and effort to Board responsibilities, the Committee seeks to have a Board that reflects diversity in background, education, business experience, skills, business relationships and associations and other factors that will contribute to the Board s governance of the Company.

In connection with making recommendations to the Board regarding nominees for election as directors, the Governance and Nominating Committee will consider qualified candidates that are proposed by our shareholders. Shareholders can submit qualified candidates, together with appropriate biographical information, to the Governance and Nominating Committee at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Submissions will be forwarded to the Governance and Nominating Committee for review and consideration. Any shareholder desiring to submit a director candidate for consideration at our 2013 Annual Meeting of Shareholders must ensure that the submission is received by the Company no later than December 10, 2012 in order to provide adequate time for the Governance and Nominating Committee to properly consider the candidate.

Shareholders may directly nominate an individual for election to the Board at our shareholders meeting by following procedures in our By-Laws. A shareholder wishing to formally nominate an individual to election to the Board at future shareholder meetings should follow the procedure set forth below under the caption Other Information Shareholder Proposals for 2013 Annual Meeting --Shareholder Nominations.

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Board Leadership

Our Governance Guidelines provide for separation of the roles of Chair of the Board and Chief Executive Officer. These positions are respectively held by Curtis A. Sampson and William G. Schultz. This structure enables the Chair, in collaboration with other non-employee directors, to have an active role in setting agendas and establishing Board priorities and procedures.

Board s Role in Managing Risk

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

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

Director Compensation

Compensation information paid to non-employee directors of the Company is set forth under the caption Director Compensation on page 29.

Code of Ethics and Business Conduct

We have adapted a Code of Ethics and Business Conduct (the Code) applicable to all of the Company s officers, directors, employees and consultants that establishes guidelines for professional and ethical conduct in the workplace. The Code also contains a special set of guidelines applicable to the Company s senior financial officers, including the chief executive officer, principal financial officer, principal accounting officer, and others involved in the preparation of the Company s financial reports. These guidelines are intended to promote the ethical handling of conflicts of interest, full and fair disclosure in periodic reports filed by the Company, and compliance with laws, rules and regulations concerning this periodic reporting. A copy of the Code is available by following links on the Corporate Governance page of our website at http://www.commsystems.com, and is also available, without charge, by writing to the Company s Corporate Secretary at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

Contacting the Board of Directors

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

PROPOSAL 1 - ELECTION OF DIRECTORS

The size and structure of the Board of Directors presently consists of eight director positions, divided into three classes, with each class of directors serving staggered three-year terms. Upon the recommendation of the Governance and Nominating Committee, the Board of Directors has nominated and recommends that the Company s shareholders elect Jeffrey K. Berg, Roger H.D. Lacey and William G. Schultz, each of whom currently serves as a director, for three-year terms expiring in 2015. The Board of Directors believes that each nominee will

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be able to serve as a director. Should a nominee be unable to serve, however, the persons named in the proxies have advised the Company that they would vote for the election of such substitute nominee as the Governance and Nominating Committee may recommend and the Board of Directors may propose.

The following table sets forth information regarding the nominees named above and other directors filling unexpired terms, including information regarding their principal occupations currently and for the preceding five years.

Directors Proposed for Election for Terms Expiring in 2015

Jeffrey K. Berg (70)	JEFFREY K. BERG has been a director since 2007 and served as President and Chief Executive Officer of the Company from 2007 until his retirement in May 2011. Mr. Berg currently provides consulting services to the Company pursuant to a consulting agreement and also serves as a member of our Executive Committee and Finance Committee. Mr. Berg joined CSI in 1989 and was appointed as President of CSI s Suttle subsidiary in 1992. Mr. Berg was named President of the Company in 2000, became CSI s Chief Operating Officer in 2002, and was appointed Chief Executive Officer in 2007. Before joining CSI, Mr. Berg was employed by AT&T from 1962 to 1989 where he was assigned management responsibility over various areas related to the production of AT&T s telecommunications products and equipment. At AT&T he gained experience in supervising manufacturing, quality control, human resources and IT elements of AT&T s telecommunications business, and also gained experience in product divestitures and plant relocations. After joining CSI and until being appointed Chief Operating Officer, Mr. Berg s experience was a mix of supervising manufacturing and providing leadership in sales and marketing. Mr. Berg brings to the Board a keen understanding of the telecommunications and data communications, extensive sales and marketing experience, personal relationships with key customers and demonstrated executive leadership abilities. Additionally, Mr. Berg s former role as our Chief Executive Officer gives him unique insights into our challenges, opportunities and operations.
Roger H.D. Lacey (61)	ROGER H.D. LACEY has been a director since 2008 and currently is a member of our Compensation Committee and Governance and Nominating Committee. Mr. Lacey was named Senior Vice President, Strategy and Corporate Development at 3M Corporation in 2010, and from 2000 to 2009 was 3M s Vice President, Corporate Strategy and Market Development. Mr. Lacey s career with 3M began in 1975, and from 1989 to 2000 he was assigned to 3M s Telecom Division, holding various positions including Division Vice President. He has also served as the General Manager of 3M s UK based Electro-Telecommunications Division. Mr. Lacey is currently a member of the Strategy Board based in Washington D.C., a member of The Conference Board -- Counsel of Strategic Planning Executives and a board member of Abbott Northwestern Hospital Foundation and University of St. Thomas Business School, both located in Minneapolis, Minnesota. Also, Mr. Lacey was a founding member of the Innovation Lab at MIT. In addition, as part of these duties for 3M, Mr. Lacey has also served on boards in China, Japan, Germany and Spain. Mr. Lacey brings a unique perspective that combines familiarity with opportunities and challenges presented in telecommunications and data communications markets around the world and deep experience in how strategic planning can be used to evaluate competing opportunities and optimize the use of a company s resources.
William G. Schultz (43)	WILLIAM G. SCHULTZ became our President and Chief Executive Officer on May 19, 2011 in accordance with a planned succession process. Concurrent with his appointment as our CEO on May 19, 2011, the Company s directors elected Mr. Shultz to the CSI Board of Directors. The Board has nominated Mr. Schultz for election by the shareholders to serve as a director for a three-year term expiring in 2015. Mr. Schultz currently serves as a member of the Executive Committee and Finance Committee. After receiving his MBA degree at the Goizueta Business School, Emory University, Mr. Schultz joined Transition Networks, a CSI business unit, in May of 2000 as a Product Manager. Prior to joining Transition Networks Mr. Schultz spent nine years with AMP/Tyco Electronics in a variety of roles including packaging engineering, sales, and channel management. In March 2001, Mr. Schultz became the Director of Marketing for Transition Networks and served in that role until 2002 when he was promoted to Vice President of Marketing. In October 2007, Mr. Schultz was named the VP and General Manager for Transition

Networks. Effective May 2010, Mr. Schultz was named Executive Vice President of Operations, which included additional responsibilities for Suttle and Information Technology as well as running the Transition Networks business unit. This experience coming up through a CSI business unit has given Mr. Schultz experience in all facets of the business. He also established the engineering development office in Shanghai, China and has extensive international travel experience meeting with customers, distribution channels, and supply chain partners. His leadership and business skills helped to make Transition Networks the largest business unit in the CSI portfolio. This experience provided excellent preparation for Mr. Schultz becoming the President and CEO of CSI, and the insights he gained to the markets and activities of the business units while he served as Executive Vice President of Operations makes him a vital member of the Board.

Directors Serving Terms Expiring in 2013

Gerald D. Pint (76)	GERALD D. PINT has been a director of CSI since 1997. He is currently a member of the Compensation Committee, serving as its Chair, and is also a member of our Governance and Nominating Committee and our Executive Committee. Since 1993, Mr. Pint has provided telecommunications consulting services and served on the boards of three public companies in addition to CSI: Hector Communications Corporation (2003 to 2006), Norstan, Inc. (1982 to 1997) and Inventronics Ltd. (1994 to 2004). From 1959 to 1993, Mr. Pint was employed by 3M Corporation and held various sales and management positions at 3M business units that were engaged in manufacturing and selling electronic and telecommunications products. In particular, from 1976 to 1982, Mr. Pint served as the Division Vice President of 3M s Telecom Products Division, and from 1982 until his retirement in 1993 he served as Group Vice President of 3M s Electro Telcom Group. Mr. Pint s background in and understanding of production and sales of telecommunications and electronics products, as well as his executive level management experience, derived from a 34-year career at 3M Corporation, provide a valuable perspective in the Board s governance of CSI s telecommunications and data communications related businesses.
Curtis A. Sampson (78)	MR. CURTIS A. SAMPSON founded the Company in 1969 and has been a director since its inception. He currently serves as Chair of CSI s Board, and is also a member of the Board s Executive Committee and Finance Committee. He is also Chairman and a director of Canterbury Park Holding Corporation, a public company engaged in pari-mutuel and card club wagering, and a director of Solix, a process outsourcing firm focusing on government and commercial markets. He is also a trustee of Viterbo University in LaCrosse, Wisconsin and a member of the Emeritus Board of Overseers of the University of Minnesota s Carlson School of Management. Mr. Sampson was CSI s Chief Executive Officer from 1969 to June 2007, when he retired from full time executive responsibilities. While CEO, in addition to providing leadership to CSI s operations, Mr. Sampson managed numerous acquisitions and divestitures, including spin offs of two internally developed business units that were subsequently sold in transactions generating an aggregate of approximately $200 million in cash for their shareholders. Over the course of his career, Mr. Sampson has also served on other non-profit boards, telephone industry association boards and private company boards, including service as a director of the following public companies: Hector Communications Corporation (2003 to 2006), Nature Vision, Inc. (2001 to 2009) and North American Communications Corporation (1986 to 1988). The distinctive perspective Mr. C.A. Sampson brings to the Board is his knowledge, gained over 40 years leading the Company, of CSI s business, operations, markets, vendors, customers and employees in combination with his experience in business acquisitions and divestitures, perspective gained from serving on other boards and extensive executive management experience.

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Directors Serving Terms Expiring in 2014

Edwin C. Freeman (56)	EDWIN C. FREEMAN has been a director of CSI since 1988. He is currently a member of the Audit Committee, serving as its Chair, and is our audit committee s financial expert as that term is defined under the rules of the Securities and Exchange Commission. He is also a member of our Finance Committee and our Compensation Committee. Mr. Freeman currently serves as the Vice President and Chief Financial Officer of Bro-Tex Co., Inc. (paper and cloth wiper products, and carpet recycling) and has held other management positions in both operations and finance since joining Bro-Tex in March 1992. After receiving his MBA from the Harvard Business School in 1981, and before joining Bro-Tex, Mr. Freeman held positions in investment banking and strategic planning. Mr. Freeman brings strong executive management and financial management skills, as well as an in-depth knowledge of manufacturing processes similar to those used at CSI s production facilities. In addition, the Board benefits from Mr. Freeman s deep understanding of our business and our products that he has acquired during twenty years of service on our Board.
Luella G. Goldberg (75)	LUELLA G. GOLDBERG has been a director of CSI since 1997 and currently serves as a member of our Governance and Nominating Committee serving as its Chair, our Audit Committee and our Executive Committee. She also is a member of the Board of TCF Financial Corporation (1988 to Present) and is a member of the Board of Overseers of the University of Minnesota s Carlson School of Management (1979 to Present), in addition to currently serving on boards of several other educational and non-profit organizations. Over the past 35 years Ms. Goldberg has served on the boards of a number of corporations, including the following public companies: Hormel Foods Corporation (1993 to 2009), the Supervisory Board of ING Group based in Amsterdam, Netherlands (2001 to 2008), which acquired ReliaStar Financial Corporation in 2001 (where she served as a director from 1976 to 2000). She also was a Trustee of University of Minnesota Foundation from 1975 to 2008 and its Chair from 1996 to 1998. She also served as a trustee of Wellesley College (1978 to 1996) and was its Acting President from July to October 1993. Along with a number of other honors and awards that have recognized her achievements, in 2001 Ms. Goldberg received the Twin Cities Business Monthly s Lifetime Achievement Award as Outstanding Director. Because of her vast experience serving as a director of a myriad of significant for-profit, educational and philanthropic organizations, Ms. Goldberg brings special expertise in governance, as well as deep experience from a board perspective in addressing many of the wide variety of issues that the Company regularly faces.
Randall D. Sampson (53)	RANDALL D. SAMPSON has been a director since 1999. He currently serves as a member of our Finance Committee, serving as its Chair, and is also a member of our Audit Committee and our Compensation Committee. Mr. R.D. Sampson is the son of C.A. Sampson. Mr. R.D. Sampson is the President and Chief Executive Officer, as well as a member of the Board, of Canterbury Park Holding Corporation (CPHC), positions he has held since 1994. CPHC is a public company based in Shakopee Minnesota which, led by R.D. Sampson, re-launched a failed pari-mutuel race track and stimulated the revival of Minnesota s horse breeding and training industries. As a result, under his leadership, the Canterbury Park Racetrack has become a unique, family-friendly venue for live horse races and other entertainment, as well as pari-mutuel and card club wagering. Before becoming one of the three co-founders of CPHC in 1994, and after graduating from college with a degree in accounting, Mr. Sampson worked for five years in the audit department of a large public accounting firm where he earned his CPA certification, subsequently gained experience as a controller of a private company, served as a chief financial officer of a public company and managed Sampson family interests in horse breeding and training. The challenging nature of Canterbury Park s business has demanded from its CEO an entrepreneurial mindset, attention to expense control, continuous innovation in marketing, and attention to the needs of customers, which, along with other qualities, Mr. R.D. Sampson uniquely brings to the governance responsibilities of the CSI Board.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Summary Ownership Table

The following table sets forth sets forth certain information with respect to the Company s common stock beneficially owned by: (i) each person known by the Company to own of record or beneficially 5% or more of the Company s common stock, (ii) each director, (iii) each Named Executive Officer listed under Executive Compensation and Other Information, and (iv) all officers and directors of the Company as a group, in each case based upon information available as of March 27, 2012 (unless otherwise noted), and all shares subject to options reflect options that may be exercised within 60 days of March 27, 2012. All shares of restricted stock reported in the table vest on May 19, 2012.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Curtis A. Sampson	1,580,320(1)	18.6%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	628,456(2)	7.4%
John C. Ortman 1506 17th Street Lawrenceville, IL 62439	543,350	6.4%
Ira Albert 1304 SW 160th Avenue, Suite 209 Fort Lauderdale, FL 33326	519,151(3)	6.1%
David T. McGraw	502,971(4)	5.9%
William G. Schultz	500,629(5)	5.9%
Putnam, LLC One Post Office Square Boston, MA 02109	497,856(6)	5.9%
Jeffrey K. Berg	79,772(7)	*
Bruce Blackwood	7,358(8)	*
Seweryn Sadura	5,688(9)	*
Karen Nesburg Black	8,180(10)	*
Edwin C. Freeman	38,493(11)	*
Luella G. Goldberg	38,626(12)	*
Roger H.D. Lacey	8,226(13)	*
Gary D. Pint	30,226(14)	*
Randall D. Sampson	92,050(15)	1.1%
All directors and named executive officers as a group (12 persons)	1,866,579(16)	21.4%

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* Indicates less than one percent ownership.

A Director or a Named Executive Officer of the Company.

(1) Includes 1,040,779 shares owned by Mr. Curtis A. Sampson directly, 7,000 shares held indirectly in an irrevocable trust for Mr. Sampson s children and grandchildren, 16,323 shares owned by his spouse, as to which beneficial ownership is disclaimed, 10,000 shares held by the Sampson Family Foundation, a charitable foundation of which Mr. Sampson is the sole trustee and as to which he disclaims beneficial interest, 9,000 shares subject to options, 2,226 shares of restricted stock, and 494,992 shares owned by the Communications Systems, Inc. Employee Stock Ownership Plan (CSI ESOP), of which Mr. Sampson is a Trustee. Mr. Sampson disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 42,348 shares allocated to his CSI ESOP account as of December 31, 2011.

(2) The aggregate number of shares held by Dimensional Fund Advisors LP (Dimensional) is owned by four investment companies and certain other commingled group trusts and separate accounts. In its role as investment advisor, Dimensional is deemed to have beneficial ownership of the securities as reported on Amendment No. 4 to Schedule 13G filed with the Securities and Exchange Commission on February 14, 2012.

(3) The aggregate number of shares listed above includes shares owned by Albert Investment Associates, L.P., shares owned by Ira Albert personally, and shares owned by accounts over which Ira Albert has discretionary voting and dispositive authority, as reported on the most recent Schedule 13D/A filed with the Securities and Exchange Commission on September 17, 2008.

(4) Includes 4,656 shares owned by Mr. McGraw directly, 3,323 shares subject to options and 494,992 shares owned by the CSI ESOP, of which Mr. McGraw is a Trustee. Mr. McGraw disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 6,049 shares allocated to his CSI ESOP account as of December 31, 2011.

(5) Consists of 2,489 shares owed by Mr. Schultz directly, 3,148 shares subject to options and 494,992 shares owned by the CSI ESOP, of which Mr. Schultz is a Trustee. Mr. Schultz disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 5,480 shares allocated to his CSI ESOP account as of December 31, 2011.

(6) The aggregate number of shares listed above are held by Putnam, LLC and Putnam Advisory Company, LLC, a wholly-owned subsidiary of Putnam, LLC, as reported on the most recent Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2003.

(7) Includes 19,358 shares owned by Mr. Berg directly, 35,270 shares issued upon the exercise of options, 22,868 shares allocated to his CSI ESOP account, and 2,226 shares of restricted stock.

(8) Includes 1,768 shares subject to options and 5,590 shares allotted to Mr. Blackwood s CSI ESOP account at December 31, 2011.

(9) Includes 775 shares owned directly by Mr. Sadura, 1,450 shares subject to options, and 3,463 shares allotted to his CSI ESOP account at December 31, 2011.

(10) Includes 3,399 shares owned directly by Ms. Bleick, 778 shares subject to options, and 4,003 shares allotted to her CSI ESOP account at December 31, 2011.

(11) Includes 9,267 shares owned by Mr. Freeman directly, 27,000 shares subject to options, and 2,226 shares of restricted stock.

(12) Includes 9,400 shares owned directly by Ms. Goldberg, 27,000 shares subject to options and 2,226 shares of restricted stock.

(13) Includes 6,000 shares subject to options held by Mr. Lacey and 2,226 shares of restricted stock.

(14) Includes 1,000 shares owned directly by Mr. Pint, 27,000 shares subject to options, and 2,226 shares of restricted stock.

(15) Includes 32,524 shares owned by Mr. Randall Sampson directly, 30,300 shares owned by his children, 27,000 shares subject to option, and 2,226 shares of restricted stock.

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(16) Includes 1,123,647 shares owned by officers and directors as a group directly, 46,623 shares held by their respective spouses and children, 7,000 shares held by an irrevocable trust, 10,000 shares held by the Sampson Family Foundation, 168,735 shares subject to option, 15,582 shares of restricted stock, and 494,992 shares owned by the CSI ESOP. Messrs. Curtis A. Sampson, David T. McGraw, and William G. Schultz serve as Trustees of the CSI ESOP, and disclaim beneficial ownership of the shares held by the CSI ESOP, except for shares allocated to their respective accounts.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company officers, directors and beneficial holders of 10% or more of the Company s securities are required to file reports of their beneficial ownership with the Securities and Exchange Commission on Forms 3, 4 and 5. According to the Company s records, all reports required to be filed during this period pursuant to Section 16(a) were timely filed.

Five-Year Performance Graph

The following graph presents, at the end of each of the Company s last five fiscal years, the cumulative total return on the common stock of the Company as compared to the cumulative total return reported for the NASDAQ (U.S.), and the NASDAQ Telecommunications Index. Company information and each index assume the investment of $100 on the last business day before January 1, 2006 and the reinvestment of all dividends.

Comparison of Five-Year Cumulative Total Return

Company or Index	2006	2007	2008	2009	2010	2011
Communications Systems, Inc.	$ 100.000	$ 120.127	$ 83.889	$ 41.012	$ 167.035	$ 173.852
NASDAQ US	100.000	108.469	66.352	95.375	113.194	113.805
NASDAQ TELCOM	100.000	88.948	51.107	76.636	98.951	104.634

EXECUTIVE COMPENSATION AND RELATED INFORMATION

COMPENSATION DISCUSSION AND ANALYSIS

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

This Compensation Discussion and Analysis (CD&A) provides information regarding executive compensation objectives and policies, compensation plans for or applicable to the Company s Senior Executives (defined below), and compensation paid or potentially payable to the Senior Executive under such plans. This CD&A uses the following terms when discussing executive compensation:

- Board means the Board of Directors of the Company.
- Committee means the Compensation Committee appointed by the Board.
- Incentive Award means the grant of an opportunity to earn compensation for long-termperformance in cash or stock, or both, following the end of a multi-year period, but only if payment is justified by actual performance as compared to pre-established financial goals.
- Named Executive Officers means the following six executives whose compensation is reported in the Summary Compensation Table immediately following this CD&A: Jeffrey K. Berg, our CEO through May 19, 2011, William G. Schultz, our current CEO, David T. McGraw, our CFO, Bruce Blackwood, the General Manager of Suttle, Seweryn Sadura, the General Manager of TNI, and Karen Nesburg Bleick, our Vice President of Human Resources.
- Senior Executives means a group consisting of the Named Executive Officers, managers of other business units, and other high level executives that collectively comprise our senior management team.
- Stock Option means the right to purchase shares of the Company s common stock at an exercise price equal to the fair market value of the Company s common stock on the date the option is granted.

This CD&A discusses compensation of our Senior Executives generally and provides more detailed information regarding compensation of our Named Executive Officers.

Key Developments Affecting 2011 Executive Compensation

In August 2010, the Company engaged Pearl Meyer & Partners (PM&P), a national compensation consulting firm, to evaluate the Company s existing compensation practices for our Senior Executives and to make recommendations with respect to possible changes to these practices. In November 2010, when it had completed the first phase of its work, PM&P made a number of recommendations that significantly influenced our decisions with respect to 2011 compensation policies and objectives, including the following:

- PM&P advised that while base salaries and annual bonus opportunities were generally in line with the median paid by comparable companies, long-term incentive compensation opportunities for the Company s Senior Executives were approximately 40% below opportunities for such compensation at comparable companies.
- PM&P also advised that our approach to long-term incentive compensation did not place sufficient emphasis on equity compensation, and recommended that a substantial portion of long-term incentive compensation should be paid in grants of Stock Options and that payouts of Incentive Awards should be 50% or more in stock.

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In November 2010, based upon the recommendation by PM&P, the Board selected a group of approximately 20 companies of similar size and scope to provide a comparator group for assessing the Company s market position in compensation levels and practices

Beginning in December 2010, based on data gathered from the comparator group and further advice and recommendations from PM&P, we implemented the following changes applicable to 2011 compensation of Senior Executives:

- The Committee refined certain elements of our annual bonus plan to require higher levels of performance before any annual bonus was earned.
- Using data from the comparator group, the Committee established total target opportunities to earn long-term incentive compensation at levels competitive with the market. The Committee also determined that 70% of each executive s total long-term incentive opportunity would be paid in Incentive Awards and that the remaining 30% would be paid in Stock Options.
- We amended our existing long-term incentive plan pursuant to which we make Incentive Awards to permit annual grants of Incentive Awards, rather than every other year, as was our practice before 2011. The plan was also amended to provide that payouts under Incentive Awards may be in cash or stock, or both. Based on these changes, the Committee determined that payouts earned under our 2011 Incentive Awards would be 50% in stock and 50% in cash.
- The Board approved stock ownership guidelines that require the Senior Executives to make progress towards owning stock equal to at least one times their base compensation.

The year 2011 was a record breaking year for CSI. By the end of the year, CSI had set new records for net sales and net income. In particular, revenues increased 19.7% compared to 2010. Our strong financial results in 2011 are a primary reason for the overall increases in total compensation of the Named Executive Officers reflected in the Summary Compensation Table that immediately follows this CD&A.

Compensation Philosophy and Objectives

The Company s philosophy with respect to compensation of the Company s Senior Executives is based upon the following objectives:

- Align compensation with shareholder interests;
- Reward both annual and sustainable long-term performance;
- Provide pay opportunities comparable with companies with which the Company competes for management talent; and
- Maintain internally fair and equitable compensation levels and practices.

In furtherance of these objectives, the Committee has placed increasing emphasis over the last several years on performance-based compensation in determining the appropriate mix of the various components of executive compensation.

Role of the Committee and the Information Used to Determine Compensation

One of the Committee s primary responsibilities is to review and approve, or recommend for Board approval, compensation paid to the Company s Chief Executive Officer, other Named Executive Officers, and other Senior Executives. The Committee carries out this responsibility pursuant to a written charter adopted by the Board. The Committee consists of four independent board members. See Corporate Governance and Board Matters Director Independence above. The Committee is also subject to Board oversight, and other members of the Board frequently participate in deliberations related to executive compensation. Additional information regarding the primary responsibilities of the Committee and its current members is provided above under the caption Corporate Governance and Board Matters the Board, Board Committees and Meetings.

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Compensation Consultant

Under its charter, the Committee has the authority to select, retain, and compensate executive compensation consultants and other experts as it deems necessary to carry out the responsibilities. As summarized above, beginning in August 2010, PM&P engaged in an extensive study of the overall structure of our compensation program and each of the primary components of our compensation program (base salary, annual bonus compensation and long-term incentive compensation) to determine whether we were paying competitive compensation, whether our approach was in line with best practices for public companies and whether we should change our approach to compensation to better align the interests of our Senior Executives with the interests of our shareholders. Based on the results of this study and recommendations of PM&P derived from its extensive experience in executive compensation, the Committee and the Board took the actions and made the changes that are summarized above and further discussed in greater detail at various points in the remainder of this CD&A.

Comparative Data

In fiscal 2011, based upon PM&P s recommendation, the Board selected a group of approximately 20 companies of similar size and scope to provide comparative data for assessing the Company s market position in compensation levels and practices. In particular, by reference to this comparator group, PM&P determined median compensation paid for base salary, annual incentive compensation and long-term incentive compensation and compared them to amounts paid to the Named Executive Officers and other Senior Executives to determine the need for adjustments, if any. The comparators that were used for determining fiscal 2011 compensation consisted of the following companies:

Digi International Inc.	Keithley Instruments, Inc.
Network Engines, Inc.	Comverge, Inc.
ShoreTel, Inc.	EF Johnson Technologies Inc.
BigBand Networks, Inc.	KVH Industries Inc.
Oplink Communications, Inc	RAE systems Inc.
LoJack Corporation	DRI Corporation
Spectrum Control, Inc.	DTS Inc.
LeCROY Corporation	Network Equipment Technologies Inc.
Zhone Technologies, Inc.	Meru Networks Inc.
CalAmp Corp.	Optical Cable Corp.

Internal Compensation Committee

In determining and recommending to the Board compensation to be paid to the Named Executive Officers and other Senior Executives, the Committee solicits advice and recommendations from the Company s Internal Compensation Committee, which currently consists of four Company officers: CEO, CFO, Vice President of Human Resources and Controller. However, neither the Internal Compensation Committee acting collectively, nor any of its members possess any authority to determine the amount or form of compensation paid to any Named Executive Officer or any other Senior Executive. The determination of compensation paid to the Named Executive Officers and other Senior Executives is entirely the responsibility of the Committee.

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Discussion of Executive Officer Compensation

Summary Regarding Components of Executive Compensation

Total compensation paid to Senior Executives prior to 2011 consisted primarily of base salary, annual bonus compensation and Incentive Awards. In 2011 we added grants of Stock Options as a fourth component to our executive compensation program. The following table summarizes:

Why we choose to pay each of these components to our Senior Executives;

What each component is designed to reward and form of payment; and,

How we determine the amount for each component.

Element of Compensation	*Why Component is Paid, Form of Payment & What it Rewards*	*How Component Was Determined for FY 2011*
Base Pay	Provides a fixed level of cash income appropriate to the position. Based on the individual s experience, scope of responsibility and the level of performance.	Set at levels near median of market data
Annual Bonus Compensation	Provides incentive to achieve annual company wide or business unit objectives. Paid primarily in cash; stock grants for performance substantially greater than target goal. Rewards achievement only if actual performance is within Committee-determined performance goals representing minimum, target and maximum levels of achievement.	Target bonus near median of market
Incentive Awards	Provides an incentive to build long-term shareholder value based on achieving multi-year goals. Aligns executives to interests of shareholders. Payout of 2011 Incentive Awards, if earned, occurs in 2014 and will consist of 50% stock and 50% cash. Rewards superior long-term performance Facilitates executive retention	Grant date value of Incentive Awards near median of market
Stock Options	A right to purchase shares equal to market price when granted, option only valuable as stock price appreciates. 2011 stock options vest over 4 years. Provides incentive for delivering long-term shareholder value and aligns interests of executives with shareholders Rewards superior long-term performance Facilitates executive retention	Grant date value of Stock Options near median of market

Further information regarding each of these components, as well as other benefits provided and compensation paid to our Senior Executives is presented over the next several pages.

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Base Salaries

Base salaries of the Company s executive officers are established by reference to average base salaries paid to executives in similar positions with similar responsibilities. Base salaries are generally reviewed annually in December of each year and adjustments are made effective as of January 1 of the following year. However, from time to time, promotions and other events require adjustments at other points in the year. When it determines base salaries, the Committee also considers both measurable financial factors, as well as subjective judgments regarding factors such as development and execution of strategic plans, changes in areas of responsibility, potential for assuming greater responsibility and the development and management of employees,. The Committee does not, however, assign specific weights to these various quantitative and qualitative factors in reaching its decisions.

Adjustments in base salaries of our Named Executive Officers for 2011 were based in part on input from PM&P as to whether the base compensation of any of our Senior Executives was materially below the median paid at companies within our comparator group. Adjustments also reflected changes arising from the retirement of Mr. Berg as CEO in May 2011, the assumption of additional responsibilities by Mr. Schultz at the beginning of 2011 and his appointment as CEO in May 2011, and the appointment of Mr. Sadura as General Manager of TNI in January 2011. As a result, Mr. Schultz s 2011 base compensation increased 30% from base compensation he received in 2010, and Mr. Sadura s base compensation increased 45% from the base compensation he received in 2010. The other continuing Named Executive Officers, Mr. McGraw, Mr. Blackwood and Ms. Bleick, received increases in their base compensation ranging from 3% to 6% as compared to 2010.

Annual Bonus Plan

Bonuses are paid to the Senior Executives following the end of each fiscal year based on achievement in relation to objective financial goals set at the beginning of each year. These bonuses are intended to provide Senior Executives with an opportunity to receive additional, primarily cash compensation, but only if justified by superior financial performance.

At the beginning of each year, the Committee determines what objective performance measures it will use to assess financial performance. Typically, the performance measures pertain to levels of revenue and operating income, average age of receivables and inventory levels. Based on the Company s budget, the Committee then determines specific quarterly, semi-annual and annual performance goals for each of these performance measures at threshold, target and maximum levels, both in regard to overall Company performance and in regard to business unit performance, and also assigns a percentage weight to the various measures, with primary emphasis given to revenue and operating income.

The following table presents overall Company performance and business unit performance measures that were used to determine 2011 annual bonus compensation and the relative weight assigned to each of these performance measures:

	Revenue	Operating Income	Inventory	Receivables	New Business
Company	40%	50%	5%	5%	--
Transition	40%	50%	5%	5%	--
Suttle	45%	45%	5%	5%	--
JDL	25%	25%	--	--	50%

Concurrent with developing and assigning weight to the various performance measures, the Committee also determines the target bonus and maximum bonus that may be earned by each of the Senior Executives if the target performance measure is achieved or exceeded. In 2011 the total target amount of each Senior Executive s potential bonus was set as a percentage of base pay ranging from 25% to 70%.

Bonuses paid to Named Executive Officers leading the entire enterprise, rather than a specific business unit (in 2011, Mr. Berg, Mr. Schultz, Mr. McGraw and Ms. Bleick) are based on comparing the Company s consolidated 2011 performance to performance measures for overall Company performance. Bonuses paid to Named Executive Officers that lead business units (in 2011, Mr. Blackwood and Mr. Sadura) are based on comparing the performance of the leader s respective business unit to the performance measures for that business unit. One-half of each Senior

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Executive s bonus is determined based upon how well actual quarterly or semi-annual results of the entire enterprise or the business unit, as applicable, compare to the applicable performance goals, and one-half of each Senior Executives bonus is determined based upon how well twelve-month results of the entire enterprise or the business unit, as applicable, compare to annual performance goals.

Annual bonus compensation is generally determined after the end of each of the four quarters and after year end. At the end of each of the four quarters, the Company compares quarterly results to performance goals for all performance measures, other than receivables and inventory, and, in general, a bonus is paid with respect to each applicable performance measure if quarterly performance overall or for the business unit (as applicable) is at least 80% of the target performance goal for that performance measure. For two performance measures, receivables and inventory, a similar comparison is conducted only for the two semi-annual periods. Similarly, following the end of the year, twelve-month results are evaluated in comparison to annual target performance goals for each of the performance measures described above, and, in general, a bonus is paid with respect to each applicable performance measure if annual performance is at least 80% of the target performance goal for that performance measure. While bonuses are paid primarily in cash, the 2011 Annual Bonus Plan provided that stock grants would be made in lieu of cash when actual quarterly and annual revenues exceeded 110% of target revenues for the quarter or the full fiscal year.

The following table summarizes the total amount paid in cash and stock grants under the Company s 2011 annual bonus plan to the Company s Named Executive Officers as compared to the target bonus set at the beginning of the year.

Name of Senior Executive	2011 Target Bonus as % of Base Compensation	Target 2011 Bonus ($)	2011 Annual Bonus Paid in Cash ($)	2011 Annual Bonus Paid in Stock (# of Shares)
Mr. Schultz	70%	170,717	213,916	589
Mr. Berg	70%	276,500	153,170	307
Mr. McGraw	55%	136,400	172,864	456
Mr. Blackwood	50%	92,500	63,593	---
Mr. Sadura	50%	78,848	97,489	799
Ms. Bleick	30%	43,500	55,129	145

Long Term Incentive Compensation

Long Term Incentive Compensation Prior to 2011

Beginning in 2004, the Company offered Senior Executives and other key employees (collectively Participants) the opportunity to earn long-term incentive compensation in cash under its Performance Unit Plan (PUP Plan). Under the PUP Plan, performance was measured over four year periods (each a Performance Period) that commenced at the beginning of each even numbered year. The two Performance Periods most recently established under the PUP Plan are the 2008 2011 Performance Period and the 2010 2013 Performance Period.

In general, for each Performance Period, (i) performance measures and related performance goals denominated as Threshold, Target and Maximum were determined for the Company and each of its business units, and (ii) each Participant was assigned a Target Opportunity and a Maximum Opportunity to earn long-term incentive compensation based on the level of his or her responsibility within the Company or a Company business unit based on actual achievement as compared to the performance goals. Following the end of the Performance Period, if Company or business unit performance, as applicable, over the four year period was at or above Threshold in relation to the applicable performance goals and the Participant was still employed by the Company, Participants were paid incentive compensation in cash that was less than, equal to or greater than their respective Target Opportunity (up to the Maximum Opportunity) commensurate with the Company s performance

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or business unit performance as compared to applicable performance goals long the Threshold-Target-Maximum continuum.

2008 2011 Performance Period

For the four year period beginning January 1, 2008, three separate performance measures were selected: (i) return on total assets, (ii) operating income growth and (iii) revenue growth, and Threshold, Target and Maximum and performance goals were established for each performance measure both at the Company level and for each business unit. In the case of the return on assets and operating income growth measures, the performance measures were established as annual targets, while the revenue growth goals were set as a four-year, cumulative target. As a result, achievement against the performance goals for return on assets and operating income growth were calculated for each of the four years within the Performance Period (and was considered earned, but subject to forfeiture), while achievement against the revenue growth goals was only calculated as of the end of the four-year period (at which time is was deemed earned).

The amounts earned by Senior Executives under the 2008 2011 Performance Period were calculated based on separate assessments of actual performance against goals at the Company level, business unit level, or both and weighting given to each. In determining the amount payable to each Senior Executive actual performance compared to the return on assets goals was assigned a 50% weight, while actual performance compared to the operating income growth goals and revenue growth goals were each assigned a 25% weight. Accordingly, the total amount earned by each Senior Executive represents the sum of three amounts: (i) for the return on assets measure, the amount of the Participant s Target Opportunity is multiplied by 50% and then increased or decreased proportionate to Company or business unit performance along the Threshold-Target-Maximum performance goal continuum; (ii) for the operating income growth measure, the amount of the Senior Executive s Target Opportunity is multiplied by 25% and then increased or decreased proportionate to Company business unit performance along the Threshold-Target-Maximum performance goal continuum; and (iii) for the revenue growth measure, the amount of the Senior Executive s Target Opportunity is multiplied by 25% and then increased or decreased proportionate to Company or business unit performance along the Threshold-Target-Maximum performance goal continuum.

Long-term incentive compensation earned for the 2008 2011 Performance period was paid entirely in cash after completion of the audit of 2011 financial results. Amounts earned by the Named Executive Officers in 2011 with respect to the 2008 2011 Performance Period were as follows: Mr. Berg, $90,706; Mr. Schultz, $60,962; Mr. McGraw, $60,476; Mr. Blackwood, $6,473; Mr. Sadura, $0; and Ms. Nesburg Bleick $17,279.

2010 Stand-Alone Year

As discussed above, the Company began the transition to a new approach to determining and paying long-term incentive compensation in 2010. A key element of this new approach to long-term incentive compensation involved changing the frequency of awards so that, rather than starting a new four year performance period every other year, it was determined a new three year performance period should start every year. Because, at the time the Board determined to make this change, a four year period (2010 2013) had already commenced, it was decided the entire 2010 2013 Performance Period would be divided into a 2010 stand-alone year and a three year performance period beginning in 2011 and ending in 2013. Also, to begin paying long-term incentive compensation at least partly in stock, the Committee also determined that 50% of any payout for the 2010 standalone year would be paid 50% in stock, and 50% in cash.

For the 2010 stand-alone year, two performance measures were selected, return on assets and revenue growth, and performance goals for the one-year period were assigned to each. The amounts earned by Senior Executives for this one-year period were determined based on a separate assessment of Company performance against goals set for each measure and a 50% weighting given to each. Accordingly, the total amount earned by each Senior Executive was the sum of: (i) 50% of the Senior Executive s Target Opportunity increased or decreased proportionate to actual Company performance for return on assets compared to performance goals along the Threshold-Target-Maximum performance goal continuum; and (ii) 50% of the Senior Executive s Target Opportunity increased or decreased proportionate to actual Company performance for revenue growth as compared to performance goals along the Threshold-Target-Maximum performance goal continuum. While incentive compensation earned for this one-year period has now been determined, it will not be paid until 2014. At that time the amount earned (expressed in dollars) will be paid 50% in cash and 50% in shares valued at $15.09 per share based on the average share price over the 20 day period ending March 18, 2011. Assuming no disqualifying event would occur that would prevent any of the Named Executives from receiving the amounts they earned for the 2010 stand alone year, their payout in 2014 with respect to the 2010 stand alone year will be, respectively, as follows: Mr. Berg, $78,096 and 5,174 shares of stock; Mr. Schultz, $19,731 and 1,305 shares of stock; Mr. McGraw, $26,214 and 1,735 shares of stock; Mr. Blackwood, $0 and 0 shares of stock; Mr. Sadura, $0 and 0 shares of stock; and Ms. Nesburg Bleick, $9,620 and 637 shares of stock.

Overview of 2011 Long Term Incentive Compensation

In 2011, the Company began providing two forms of long term incentive compensation to its Senior Executives:

Incentive Awards, which provide for payouts in cash and stock after the end of three year performance periods to the extent justified by actual performance compared to performance goals.

Stock options, which are granted on an annual basis, vest over four years, and only offer value to the executive if the Company s stock price increases over the option exercise price.

Incentive Awards and Stock Options granted to our Senior Executives are determined under a unified framework pursuant to which the Committee first determines the amount of the total opportunity to earn long-term incentive compensation (Total LTI Opportunity) each Senior Executive will be given. In March 2011, based on competitive market data supplied by PM&P, the Committee assigned a Total LTI Opportunity for 2011 to the Senior Executives as a percentage ranging from 20% to 100% of their respective base compensation at January 1, 2011. Following this determination, based on PM&P s recommendation, the Committee agreed that 70% of the Total LTI Opportunity would be provided in the form of Incentive Awards and 30% would be provided in Stock Options.

The following table presents for each Named Executive Officer, the percent of base compensation that was used to determine that officer s respective Total LTI Opportunity, the grant date dollar value of the Total LTI Opportunity, and the allocation of this total dollar value to grants of Incentive Awards and Stock Options.

		Total LTI Opportunity		Allocation of Total LTI Opportunity:	
	2011 Base	% Base Salary	Grant Date Value	Incentive Awards	Stock Options
Mr. Schultz	$ 235,000	60%	$ 141,000	$ 98,700 (70%)	$ 42,300 (30%)
Mr. Berg	$ 395,000	100%	$ 395,000	$ 276,500 (70%)	$ 118,500 (30%)
Mr. McGraw	$ 248,000	60%	$ 148,800	$ 104,160 (70%)	$ 44,640 (30%)
Mr. Blackwood	$ 185,000	40%	$ 79,200	$ 55,440 (70%)	$ 23,760 (30%)
Mr. Sadura	$ 165,000	40%	$ 66,000	$ 46,200 (70%)	$ 19,800 (30%)
Ms. Bleick	$ 145,000	20%	$ 34,800	$ 24,360 (70%)	$ 10,440 (40%)

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2011 Incentive Awards

2011 Incentive Awards were granted under the PUP Plan as amended to accommodate various changes recommended by PM&P in 2010 and 2011. In particular, the plan was amended to provide that Incentive Awards could pay long-term incentive compensation in stock, as well as cash, to the extent earned in relation to long term performance goals. In addition, it was amended so that long term performance is measured over three year performance periods that are established every year, rather than four year performance periods established every other year. The Board later amended the PUP Plan to further refine provisions related to Incentive Awards and also changed its name to Long Term Incentive Plan. Accordingly, for purposes of discussing Incentive Awards granted in 2011 in this CD&A, we will hereafter refer to this plan as the Company s LTI Plan.

Under the LTI Plan, during the first quarter of each year the Company selects objective performance measures to assess financial performance over a three year period and Minimum, Target and Maximum performance goals for each measure. For Incentive Awards covering the 2011 to 2013 performance period, the Committee selected consolidated pretax average return on assets over the three year period (Three Year Average ROA) and consolidated cumulative revenue over the three year period (Three Year Cumulative Revenue), and established Minimum, Target, and Maximum performance goals for each of these performance measures. At the same time Incentive Awards were granted to each Senior Executive for the 2011 2013 performance period, and each award provided for a Target opportunity to earn cash and stock equal to 70% of the executive s Total LTI Opportunity and a Maximum opportunity that is 200% of the Target opportunity.

Following the end of fiscal 2013, the Committee will determine the amount payable under the 2011 Incentive Awards by comparing actual performance against the goals. The Committee will measure actual return on assets achievement (ROA Achievement) compared to performance goals at Minimum, Target and Maximum for the Three Year Average ROA and will measure actual revenue achievement (Revenue Achievement) compared to performance goals at Minimum, Target and Maximum for the Three Year Cumulative Revenue. In each case, actual performance equal to or less than the Minimum performance goal will represent 0% achievement, actual performance equal to the Target performance goal will represent 100% achievement, and actual performance at or above the Maximum performance goal will represent 200% achievement. ROA Achievement and Revenue Achievement will then be plotted on a matrix where one axis represents performance goals for Three Year Average ROA over the range from Minimum to Target to Maximum, and the other axis represents performance goals for Three Year Cumulative Revenue over the range from Minimum to Target to Maximum. The intersection of ROA Achievement and Revenue Achievement on the matrix will determine a percentage that will multiplied by the amount of the Target opportunity specified in the Incentive Award for each Senior Executive to determine the payout earned by that executive.

The following table provides examples of hypothetical payouts of Incentive Awards as a percentage of the Target opportunity of the Incentive Award based on various hypothetical combinations of ROA Achievement and Revenue Achievement.

ROA Achievement Compared to Minimum, Target, and Maximum Performance Goals	Revenue Achievement Compared to Minimum, Target and Maximum Performance Goals	Payout of Incentive Award as a Percentage of Target Opportunity
≤ Minimum	≤ Minimum	0%
50%	50%	70.83%
100%	100%	100%
150%	150%	141.67
≥ Maximum	≥ Maximum	200%

The amount earned for the 2011 Incentive Awards, when determined after 2013, will be paid 50% in cash and 50% in stock. The number of shares that are issued following the end of the performance period will be 50% of the total amount earned under the Incentive Award divided by $15.09. The $15.09 amount is the average closing price for CSI stock over the 20 business days ending March 18, 2011, a time period that ended shortly before the date the Incentive Awards were granted.

The following table shows the amount of cash that may be paid and shares of stock that may be issued to the Named Executive Officers at Target and Maximum Levels of Performance for the 2011 2013 performance period u