

2019 Letter to Shareholders

Dear Fellow Shareholders:

I am proud to say that 2019 was one of the best years for Communications Systems as we transformed the company to an operationally and financially resilient corporation.

In 2019, following a series of corporate restructuring activities and the refocus of our efforts on growth markets, we improved our financial and operational performance, increased our revenues, enhanced margins, lowered corporate costs, and returned to profitability.

Financial highlights of 2019 (vs. FY 2018)

- Consolidated FY 2019 sales from continuing operations increased by 20.1% to \$50.9 million compared to \$42.4 million.
- Consolidated FY 2019 operating income from continuing operations improved to \$9,200 compared to a loss of \$4.8 million.
- Income from discontinued operations was \$6.2 million compared to a loss of \$1.9 million.
- Consolidated FY 2019 net income was \$6.5 million, or \$0.69 per diluted share, compared to a net loss of \$6.8 million, or \$(0.75) per diluted share.
- Cash, cash equivalents, and investments totaled \$24.1 million and working capital was \$38.1 million as of December 31, 2019.

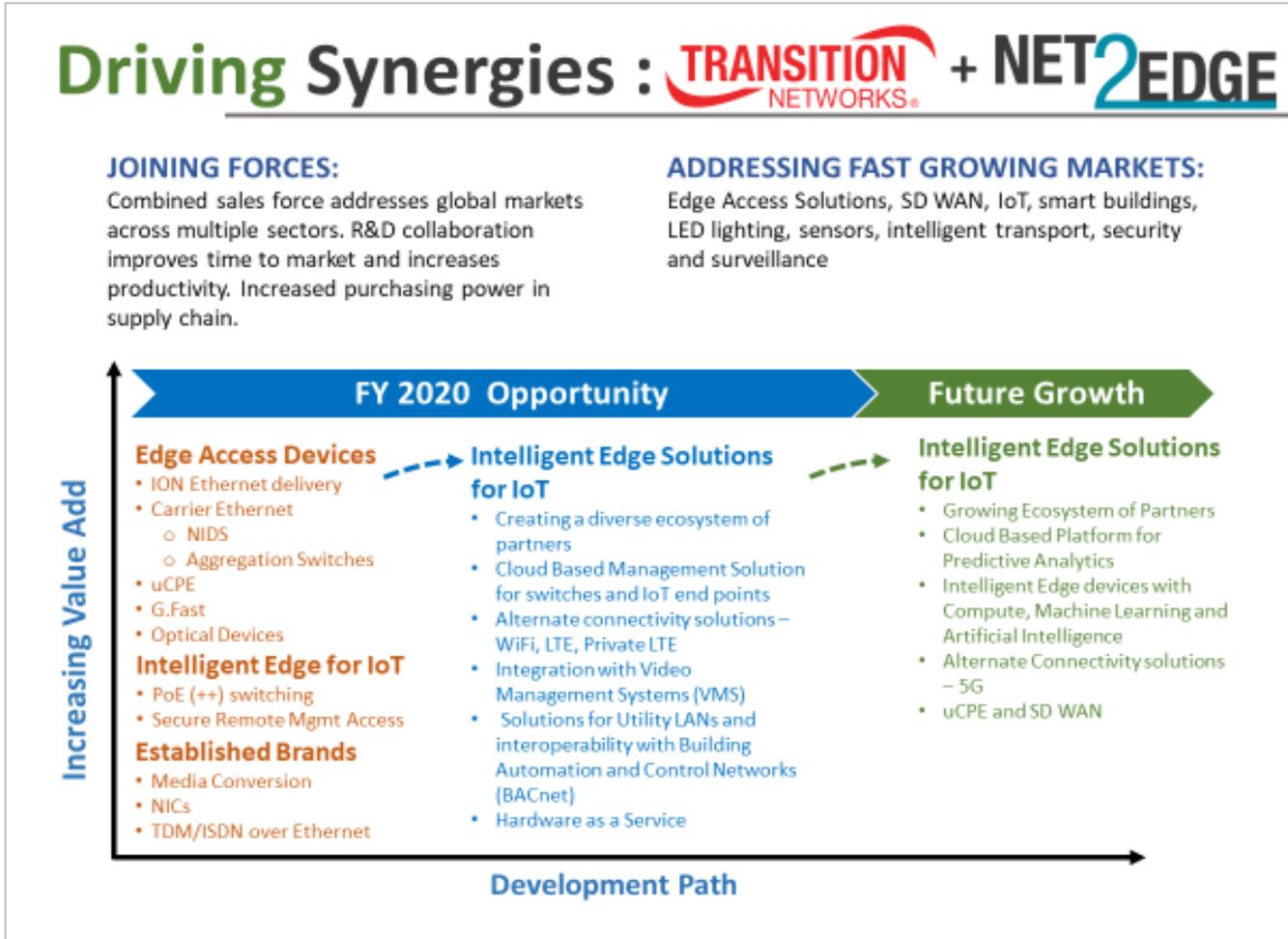


In 2019 three strategies were paramount in our transformation.

First, we deployed more of our resources to faster-growing and higher-margin markets, increasingly focusing on solutions for intelligent network edge products and cloud services within the IoT ecosystem. This was supported by a consolidation of our global sales teams, overall leading to superior customer representation and a larger sales pipeline.

Second, we substantially enhanced our business processes utilizing Lean Six Sigma fundamentals in operations supported by an upgrading of our ERP system.

Third, as we built our leadership team for the future, we combined our R&D teams under common leadership and focused investments on developing innovative, robust and easy-to-install products and service solutions.



The \$7 million contract for a NYCDOT project which Transitions Network won in mid-2019 to connect, power and manage traffic data via its hardened TAA-compliant, PoE+ (Power-over-Ethernet) switches, is an indication of the success of these strategies. We are now leveraging this success to target similar Intelligent Transportation Systems (ITS) applications for the DOT of other major cities across the globe.

Further, during 2019 and Q1 2020, we divested businesses that were no longer strategically important to our new business model by selling Suttle’s product lines including working capital, equipment, and customer relationships in two transactions for a total of \$13.0 million cash.

Moving Forward

We started 2020 with a new vision... “become the leading supplier of intelligent edge solutions for the global IoT ecosystem” by:

- Focusing R&D investments on developing easy-to-use / easy-to-integrate applications and services for both domestic and international markets/clients and capturing market share

- Targeting disruptive solutions that address the growing demand from critical infrastructure initiatives e.g. security and surveillance, intelligent transportation, smart lighting, smart cities, etc. based on IoT intelligent edge products and services for governments, public and private corporations, and individuals around the globe.
- Creating an organizational structure that achieves world-class productivity with cost effective parameters driven by continuous improvement of processes and increasingly focused on recurring revenue models.

We have a two-fold growth strategy going into 2020: a) grow our company organically through a business model where “Services” becomes an increasing proportion of future revenue which is recurring, highly predictable and higher margin, and b) build an ecosystem of partnerships / acquisitions/mergers that can either increase CSI’s technical capabilities or scale market share and geographic reach.

In Closing

As I write this letter, like many other companies doing business around the globe, our business has been impacted by the COVID-19 global pandemic. While the extent of the economic and social disruption caused by this global pandemic is unknown, we are working hard to understand the unfolding dynamics and to proactively manage, respond and quickly adjust to this new operating and economic environment.

We believe that the long-term fundamentals of our business are strong and CSI is well positioned to manage through this challenging situation. We start 2020 with working capital of \$38.1 million, no debt and a cash balance of \$24.1 million; this well-capitalized balance sheet gives us the resilience and flexibility to react to any potential challenges related to COVID-19 and most importantly deliver on our mid- and long-term growth strategy.

Looking back at everything we have accomplished over the last two years and the opportunities ahead of us, I couldn’t be more optimistic about the bright future of CSI. Our growth strategy is sound and we are well positioned to continue to further grow our business and create value to our shareholders for many years to come. Celebrating our 50th year of operation, I feel we are more at the beginning of our story than the end. Our best days lie ahead.

On behalf of the Board of Directors and the entire management team, we would like to thank our customers, employees and shareholders for their continued support and dedication.

Sincerely yours,



Roger H. D. Lacey
Chief Executive Officer