UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 2000

OR

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

For the transition period from ____________________ to ____________________

Commission File Number: 0-10355

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.)
213 South Main Street, Hector, MN	55342
(Address of principal executive offices)	(Zip Code)

(320) 848-6231

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 X 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	Outstanding at April 30, 2000
Common Stock, par value $.05 per share	8,820,922

Total Pages (11) Exhibit Index at (NO EXHIBITS)

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(unaudited)

Assets:	March 31 2000	December 31 1999
Current assets:		
Cash	$ 13,265,251	$ 14,837,655
Receivables, net	21,721,164	21,125,610
Inventories - Note 2	23,877,135	21,168,942
Deferred income taxes	1,735,000	1,735,000
Other current assets	474,867	574,530
Total current assets	61,073,417	59,441,737
Property, plant and equipment	32,745,996	32,147,128
less accumulated depreciation	(21,941,535)	(21,187,460)
Net property, plant and equipment	10,804,461	10,959,668
Other assets:		
Excess of cost over net assets acquired	8,297,191	8,819,923
Investments in debt securities	5,951,850	6,078,365
Deferred income taxes	2,177,960	2,168,571
Note receivable	3,365,390	3,365,390
Other assets	745,509	642,399
Total other assets	20,537,900	21,074,648
Total Assets	$ 92,415,778	$ 91,476,053
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 5,135,029	$ 9,043,035
Accounts payable	7,832,844	8,075,596
Accrued expenses	4,481,633	4,291,797
Dividends payable	880,807	855,087
Income taxes payable	2,717,562	2,788,746
Total current liabilities	21,047,875	25,054,261
Stockholders' Equity	71,367,903	66,421,792
Total Liabilities and Stockholders' Equity	$ 92,415,778	$ 91,476,053

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31	
	2000	1999

Sales	$ 30,864,192	$ 26,596,892
Costs and expenses:		
Cost of sales	20,390,889	17,561,114
Selling, general and administrative expenses	7,068,362	5,369,938
Goodwill amortization	522,729	404,673
Total costs and expenses	27,981,980	23,335,725
Operating income	2,882,212	3,261,167
Other income and (expenses):		
Investment income	258,146	203,635
Interest expense	(142,546)	(152,343)
Other income, net	115,600	51,292
Income before income taxes	2,997,812	3,312,459
Income taxes (Note 4)	685,000	840,000
Net income	2,312,812	2,472,459
Other comprehensive income (loss):		
Unrealized holding loss on debt securities	(24,638)	
Foreign currency translation adjustment	(31,218)	(231,503)
Other comprehensive income (loss) before income taxes	(55,856)	(231,503)
Income tax benefit related to unrealized loss on debt securities	8,540	
	(47,316)	(231,503)
Comprehensive income	$ 2,265,496	$ 2,240,956
Basic net income per share	$ .27	$ .28
Diluted net income per share	$ .26	$ .28
Average Basic Shares Outstanding	8,646,469	8,802,972
Average Dilutive Shares Outstanding	8,897,392	8,832,458

See notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Stock Option Notes Receivable	Cumulative Other Comprehensive Income (Loss)	Total
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BALANCE AT DECEMBER 31, 1998	8,791,301	$439,565	$25,250,914	$37,862,463	$ (288,225)	$ 188,935	$63,453,652
Net income				9,013,722			9,013,722
Issuance of common stock under Employee Stock Purchase Plan	27,431	1,372	266,766				268,138
Issuance of common stock to Employee Stock Ownership Plan	19,893	995	234,005				235,000
Issuance of common stock under Employee Stock Option Plan	24,783	1,239	259,537				260,776
Stock issued as compensation	8,000	400	91,600				

							92,000
Stock option compensation			125,798				125,798
Tax benefit from non qualified employee stock options			13,754				13,754
Purchase of stock	(320,136)	(16,007)	(940,068)	(2,423,746)			(3,379,821)
Shareholder dividends				(3,455,570)			(3,455,570)
Other comprehensive loss						(205,657)	(205,657)
BALANCE AT DECEMBER 31, 1999	8,551,272	427,564	25,302,306	40,996,869	(288,225)	(16,722)	66,421,792
Net income				2,312,812			2,312,812
Issuance of common stock to Employee Stock Ownership Plan	23,692	1,185	234,005				235,190
Issuance of common stock under Employee Stock Option Plan	245,458	12,273	3,025,734				3,038,007
Shareholder dividends				(880,807)			(880,807)
Collection of notes receivable					288,225		288,225
Other comprehensive loss						(47,316)	(47,316)
BALANCE AT MARCH 31, 2000	8,820,422	$441,022	$28,562,045	$42,428,874	$ -	$ (64,038)	$71,367,903

See notes to consolidated financial statements.

</TABLE>

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,312,812	$ 2,472,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,319,653	1,112,287
Changes in assets and liabilities		
Increase in accounts receivable	(620,229)	(4,553,860)
Decrease (increase) in inventory	(2,732,810)	3,076,917
Decrease in other current assets	98,960	20,315
Increase (decrease) in accounts payable	(222,575)	23,607
Increase in accrued expenses	430,464	300,733
Increase (decrease) in income taxes payable	(69,957)	584,509
Net cash provided by operating activities	516,318	3,036,967
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(659,692)	(478,221)
Maturities of mortgage-backed and other investment securities	53,490	76,082
Increase in other assets	(61,714)	(56,950)
Net cash used in investing activities	(667,916)	(459,089)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(3,908,006)	(8,293)
Dividends paid	(855,087)	(879,130)
Proceeds from issuance of common stock	3,038,007	
Collection of stock option notes receivable	288,225	
Purchase of stock		(233,760)
Net cash used in financing activities	(1,436,861)	1,121,183)

EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	16,055	(29,248)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,572,404)	1,427,447
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,837,655	20,405,363
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$13,265,251	$21,832,810
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 756,184	$ 259,855
Interest paid	60,417	46,427

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of stockholders' equity as of March 31, 2000, the statements of income and comprehensive income and the statements of cash flows for the three-month periods ended March 31, 2000 and 1999 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at March 31, 2000 and 1999 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1999 Annual Report to Shareholders. The results of operations for the periods ended March 31 are not necessarily indicative of the operating results for the entire year.

Effective April 7, 1999 the Company acquired LANart Corporation; a manufacturer of applications specific integrated circuits (ASIC Chips) located in Needham, Massachusetts, for approximately $4,700,000. The operations were subsequently merged with Transition Networks, Inc. The excess of cost over net assets acquired in the transaction was $2,361,000, which is being amortized on a straight-line basis over 5 years.

In February 2000 the Company issued 23,692 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 1999 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $235,000 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

NOTE 2 - INVENTORIES

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

	March 31 2000	December 31 1999
Finished Goods	$ 8,121,340	$ 7,418,810
Raw Materials	15,755,795	13,750,132
Total	$ 23,877,135	$ 21,168,942

NOTE 3 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended March 31, 2000 and 1999 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rico operations is taxed at rates lower than the U.S. rate.

NOTE 4 - NET INCOME PER SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 250,923 shares and 29,486 shares in 2000 and 1999, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

NOTE 5 - SEGMENT INFORMATION

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies (JDL), which provides telecommunications network design, specification and training services to educational institutions. During 1999, JDL became a more significant portion of the Company and is now identified as a separate segment. Segment results as previously reported have been restated to reflect JDL as a separate segment. Information concerning the Company's continuing operations in the various segments is as follows:

<TABLE>
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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Three Months Ended March 31, 2000						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 15,103,666	$ 2,739,835	$ 9,086,456	$ 3,934,235	$ -	$ 30,864,192
Cost of sales	9,622,387	2,319,567	5,575,038	2,873,897	0	20,390,889
Gross profit	5,481,279	420,268	3,511,418	1,060,338	0	10,473,303
Selling, general and administrative expenses	2,113,339	348,120	3,329,247	875,033	402,623	7,068,362
Goodwill amortization	76,623	14,583	320,385	111,138		522,729
Operating income (loss)	$ 3,291,317	$ 57,565	$ (138,214)	$ 74,167	$ (402,623)	$ 2,882,212
Depreciation and amortization	$ 557,833	$ 186,339	$ 404,343	$ 126,138	$ 45,000	$ 1,319,653
Assets	$ 50,471,923	$ 7,481,927	$18,703,420	$ 5,316,701	$ 10,441,807	$ 92,415,778
Capital expenditures	$ 341,058	$ 99,551	$ 110,376	$ 106,875	$ 1,832	$ 659,692
Three Months Ended March 31, 1999:						
Revenues	$ 15,970,208	$ 2,807,495	$ 6,765,382	$ 1,053,807	$ -	$ 26,596,892
Cost of sales	10,245,881	2,251,862	4,342,829	720,542	0	17,561,114
Gross profit	5,724,327	555,633	2,422,553	333,265	0	9,035,778
Selling, general and administrative expenses	1,871,221	325,225	2,312,635	464,531	396,326	5,369,938
Goodwill amortization	76,623	14,583	202,329	111,138		404,673
Operating income (loss)	4 3,776,483	$ 215,825	$ (92,411)	$ (242,404)	$ (396,326)	

						$ 3,261,167
Depreciation and amortization	$ 529,633	$ 161,274	$ 262,243	$ 118,638	$ 40,500	$ 1,112,288
Assets	$ 55,284,130	$ 6,903,216	$11,786,255	$ 3,664,879	$ 8,316,713	$ 85,955,193
Capital expenditures	$ 280,093	$ 117,705	$ 60,145	$ 20,279	$ -	$ 478,222

</TABLE>

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

Three Months Ended March 31, 2000 Compared to

Three Months Ended March 31, 1999

Consolidated sales increased 16% to $30,864,000. Consolidated operating income decreased 12% to $2,882,000.

Suttle sales decreased 5% to $15,104,000. Sales to customers in the United States (U.S.) decreased 6% to $14,486,000. The sales decline was principally due to lower sales of the Company's conventional (non-CorroShield) voice products, which offset higher sales of data products. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies (RBOCs) and GTE) decreased 10% to $9,045,000. Sales to these customers accounted for 60% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $470,000, or 12%. Sales to retail customers decreased $314,000 or 37% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, increased 5% to $618,000.

Suttle's gross margin decreased 4% to $5,481,000 due to the lower sales volume. Gross margin as a percentage of sales improved to 36.3% in 2000 from 35.8% in 1999. The improvement in gross margin percentage was due to product mix. The fastest selling products in 2000 (CorroShield and data products) tended to be the products with the highest margins. Selling, general and administrative expenses increased $242,000 or 13% due primarily to increased marketing expenses. Suttle's operating income decreased $485,000 or 13%.

Austin Taylor's sales decreased 2% to $2,740,000. The decrease was due primarily to delayed planned first shipments on a significant order. These shipments have been rescheduled into subsequent quarters. Austin Taylor's gross margin declined 24% to $420,000. Gross margin as a percentage of sales was 15.3% compared to 19.8% in 1999. The decline in gross margin was principally due to lower business volume. Selling, general and administrative expenses increased $23,000. Operating income decreased $158,000. First quarter performance was also affected by higher expenses related to the February 2000 opening of a sales and distribution office in Hong Kong.

The Company acquired JDL Technologies, Inc. in August 1998. JDL reported 2000 first quarter sales of $3,934,000 compared to $1,054,000 in 1999. Operating income was $74,000 compared to an operating loss of $242,000 reported in the first quarter of 1999. JDL's "First Class Connect program, developed for the K-12 education market represents a significant portion of the growth. This program is a turnkey package of broadband network design services, proprietary Internet access software and physical connectivity infrastructure provided by Suttle and Transition Networks.

Transition Networks, Inc. was acquired in December 1998. Sales increased by 34% to $9,086,000 in the first quarter of 2000 reflecting a strong global telecommunications market for media conversion products. Gross margin increased to $3,511,000 from $2,423,000. Operating income decreased by $46,000 due primarily to increased broadband component costs purchased in the spot market. Selling, general and administrative expenses also increased by $1,135,000.

Consolidated investment income, net of interest expense, increased $64,000 due to increased levels of funds available for investment and decreased interest on notes payable associated with acquisitions. Income from continuing operations before income taxes decreased $315,000 or 9%. The Company's effective income tax rate was 22.9% compared to 25.4% in 1999. The decrease in the tax rate was due to lower company earnings. Net income decreased $160,000 or 6%.

Liquidity and Capital Resources

At March 31, 2000, the Company had approximately $13,265,000 of cash and cash equivalents compared to $14,838,000 of cash and cash equivalents at December 31, 1999. The Company had working capital of approximately $40,026,000 and a current ratio of 2.9 to 1 compared to working capital of $34,387,000 and a current ratio of 2.4 to 1 at the end of 1999.

Cash flow provided by operations was approximately $516,000 in the first three months of 2000 compared to $3,037,000 in the same period in 1999. The decrease was due to the need to finance increased inventory and accounts receivable levels caused by the Company's increased sales volume. Cash flow benefited in the 1999 period from decreased inventory levels, as the Company was able to satisfy some of the increased customer demand out of existing stocks.

Investing activities utilized $668,000 of cash in the 2000 period. Cash investments in new plant and equipment totaled $660,000, which was financed by internal cash flows. The Company expects to spend $3,000,000 on capital additions in 2000. The Company spent an additional $6,000,000 in April 1999 to acquire LANart Corporation. The Company financed that acquisition using a combination of internal funds and short-term borrowing from U.S. Bank. The Company retired $3,908,000 of this debt in the first quarter of 2000 reducing notes payable to $5,135,000 compared to the balance of $9,043,000 at December 31, 1999.

Net cash used in financing activities was $1,437,000. The Company purchased and retired 23,400 shares of its stock in open market transactions during the 1999 period. At March 31, 2000 Board authorizations are outstanding to purchase an additional 139,500 shares. The Company purchased an additional 180,000 shares under this authorization in April 1999. No purchases of company stock occurred in the first quarter of 2000. Dividends paid on common stock were $855,000.

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.

PART II. OTHER INFORMATION

Items 1 - 6. Not Applicable

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/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: May 12, 2000

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