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 SEPTEMBER 30, 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 October 31, 2000
Common Stock, par value $.05 per share	8,804,110

Total Pages (13) Exhibit Index at (NO EXHIBITS)

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)

<TABLE>
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	September 30 2000	December 31 1999
Assets:		
Current assets:		
<S>	<C>	<C>
Cash	$ 6,683,156	$ 14,837,655
Receivables, net	27,175,763	21,125,610
Inventories (Note 4)	29,636,714	21,168,942
Deferred income taxes	1,735,000	1,735,000
Other current assets	614,752	574,530
Total current assets	65,845,385	59,441,737
Property, plant and equipment	33,138,263	32,147,128
less accumulated depreciation	(22,818,736)	(21,187,460)
Net property, plant and equipment	10,319,527	10,959,668
Other assets:		
Excess of cost over net assets acquired	7,251,727	8,819,923
Investments in mortgage backed and other securities	5,942,937	6,078,365
Deferred income taxes	2,164,116	2,168,571
Note receivable	3,165,390	3,365,390
Other assets	255,572	642,399
Total other assets	18,779,742	21,074,648
Total Assets	$ 94,944,654	$ 91,476,053
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 10,111,462	$ 9,043,035
Accounts payable	6,212,434	8,075,596
Accrued expenses	4,510,683	4,291,797
Dividends payable	879,895	855,087
Income taxes payable	1,229,970	2,788,746
Total current liabilities	22,944,444	25,054,261
Stockholders' Equity	72,000,210	66,421,792
Total Liabilities and Stockholders' Equity	$ 94,944,654	$ 91,476,053

See notes to consolidated financial statements.
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Sales	$ 29,654,108	$ 29,278,686	$ 92,592,144	$ 85,682,922

Costs and expenses:

Cost of sales	20,615,336	19,143,527	63,627,720	56,610,922
Selling, general and administrative expenses	7,187,898	7,543,603	22,499,747	21,140,877
Total costs and expenses	27,803,234	26,687,130	86,127,467	77,751,799
Operating income	1,850,874	2,591,556	6,464,677	7,931,123
Other income and (expenses):				
Investment income	217,689	299,309	731,388	721,069
Interest expense	(211,089)	(189,368)	(487,460)	(510,546)
Other income, net	6,600	109,941	243,928	210,523
Income before income taxes	1,857,474	2,701,497	6,708,605	8,141,646
Income taxes (Note 5)	350,000	600,000	1,300,000	1,820,000
Net income	1,507,474	2,101,497	5,408,605	6,321,646
Other comprehensive income (loss):				
Unrealized holding gain on debt securities	38,644		31,613	
Foreign currency translation adjustment	(130,092)	194,768	(396,231)	(130,889)
Other comprehensive loss before income taxes	(91,448)	194,768	(364,618)	(130,889)
Income tax expense (benefit) related to unrealized loss on debt securities	13,394		10,957	
	(104,842)	194,768	(375,575)	(130,889)
Comprehensive income	$ 1,402,632	$ 2,296,265	$ 5,033,030	$ 6,190,757
Basic net income per share	$ .17	$ .24	$ .62	$ .73
Diluted net income per share	$ .17	$ .24	$ .61	$ .72
Average Basic Shares Outstanding	8,771,679	8,603,260	8,738,155	8,675,949
Average Dilutive Shares Outstanding	8,910,290	8,723,100	8,901,609	8,760,734

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
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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 stock under Employee Stock Purchase Plan	27,431	1,372	266,766				268,138
Issuance of stock to Employee Stock Ownership Plan	19,893	995	234,005				235,000
Issuance of 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				

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Notes Receivable	Accumulated Other Comprehensive Loss	Total
							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				5,408,605			5,408,605
Issuance of stock under Employee Stock Purchase Plan	30,593	1,530	317,020				318,550
Issuance of stock to Employee Stock Ownership Plan	23,692	1,185	306,811				307,996
Issuance of stock under Employee Stock Option Plan	269,225	13,461	3,307,763				3,321,224
Stock issued as compensation	8,000	400	119,600				120,000
Purchase of stock	(80,505)	(4,025)	(271,382)	(899,725)			(1,175,132)
Shareholder dividends				(2,635,475)			(2,635,475)
Collection of notes receivable					288,225		288,225
Other comprehensive loss						(375,575)	(375,575)
BALANCE AT SEPTEMBER 30, 2000	8,802,277	$440,114	$29,082,119	$42,870,274	$ -	$ (392,297)	$72,000,210

See notes to consolidated financial statements.

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

<S> <C> <C>

	Nine Months Ended September 30	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,408,605	$ 6,321,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,972,128	3,918,252
Changes in assets and liabilities net of effects from acquisition of LANart Corporation in 1999:		
Iincrease in accounts receivable	(6,220,735)	(3,562,131)
Decrease (increase) in inventory	(8,662,925)	2,641,030
Increase in other current assets	(46,285)	(263,933)
Increase (decrease) in accounts payable	(1,707,642)	938,680
Increase (decrease) in accrued expenses	676,494	(172,477)
Increase (decrease) in income taxes payable	(1,548,697)	2,311

Net cash provided by (used in) operating activities	(8,129,057)	9,823,378
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,922,215)	(1,616,608)
Maturities of mortgage-backed and other investment securities	167,041	744,429
Purchases of mortgaged-backed and other securities		(5,625,000)
Decrease in other assets	365,116	72,652
Collection of notes receivable	200,000	200,000
Payment for purchase of LANart Corporation, net of cash acquired		(3,955,898)
Net cash used in investing activities	(1,190,058)	(10,180,425)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(3,931,573)	(275,568)
Proceeds from issuance of notes payable	5,000,000	1,096,921
Dividends paid	(2,610,667)	(2,621,189)
Proceeds from issuance of stock	3,639,774	504,571
Purchase of stock	(1,175,132)	(3,253,137)
Collection of notes receivable	288,225	
Net cash provided by (used in) financing activities	1,210,627	(4,548,402)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(46,011)	(20,122)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,154,499)	(4,925,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,837,655	20,405,363
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,683,156	$ 15,479,792
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 2,858,776	$ 1,814,143
Interest paid	474,954	515,351

See notes to consolidated financial statements.
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of changes in stockholders' equity as of September 30, 2000, the statements of income and comprehensive income for the three and nine month periods ended September 30, 2000 and 1999 and the statements of cash flows for the nine-month periods ended September 30, 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 September 30, 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 September 30 are not necessarily indicative of the operating results for the entire year.

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 $308,000 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount. In August 2000, the Company issued 8,000 shares of common stock to employees of a subsidiary in exchange for services. In a noncash transaction, the Company recorded additional stockholders' equity and compensation expense of $120,000.

Effective April 7, 1999 the Company acquired LANart Corporation; a manufacturer of applications specific integrated circuits (ASIC Chips) located in Needham, Massachusetts, for approximately $3,956,000, net of cash acquired. 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 December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." SAB No. 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues. SAB No. 101 is to be implemented by the Company no later than the fourth quarter of 2000. Based on an initial review, the Company does not expect it to have a significant effect on financial position or results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." The FASB subsequently issued SFAS No. 137 delaying the effective date for one year, to fiscal years beginning after June 15, 2000. The Company will adopt this standard no later than January 1, 2001. The Company does not expect that this standard will materially affect its financial position or results of operations.

NOTE 2 - 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. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

NOTE 3 - 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 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 operations in the various segments for the nine-month periods ended September 30, 2000 and 1999 is as follows:
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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Nine Months Ended September 30, 2000:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 44,090,192	$ 7,488,679	$ 29,484,368	$ 11,528,905		

	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
						$ 92,592,144
Cost of sales	30,326,723	6,301,091	18,240,652	8,759,254		63,627,720
Gross profit	13,763,469	1,187,588	11,243,716	2,769,651		28,964,424
Selling, general and administrative expenses	5,643,320	1,201,099	11,235,527	3,175,510	$ 1,244,291	22,499,747
Operating income (loss)	$ 8,120,149	$ (13,511)	$ 8,189	$ (405,859)	$ (1,244,291)	$ 6,464,677
Depreciation and amortization	$ 1,673,499	$ 572,186	$ 1,213,029	$ 378,414	$ 135,000	$ 3,972,128
Capital expenditures	$ 1,215,500	$ 196,111	$ 209,458	$ 266,808	$ 34,338	$ 1,922,215
Assets	$ 48,155,680	$ 6,692,516	$ 22,445,091	$ 8,696,278	$ 8,955,089	$ 94,944,654
Nine Months Ended September 30, 1999:						
Revenues	$ 44,422,016	$ 8,716,082	$ 26,134,463	$ 6,410,361		$ 85,682,922
Cost of sales	28,846,450	7,071,579	16,418,102	4,274,791		56,610,922
Gross profit	15,575,566	1,644,503	9,716,361	2,135,570		29,072,000
Selling, general and administrative expenses	6,146,014	1,012,953	10,401,783	2,286,980	$ 1,293,147	21,140,877
Operating income (loss)	$ 9,429,552	$ 631,550	$ (685,422)	$ (151,410)	$ (1,293,147)	$ 7,931,123
Depreciation and amortization	$ 1,748,636	$ 480,667	$ 1,211,534	$ 355,915	$ 121,500	$ 3,918,252
Capital expenditures	$ 1,041,379	$ 360,839	$ 73,424	$ 85,331	$ 55,635	$ 1,616,608
Assets	$ 49,087,016	$ 7,346,459	$ 20,203,702	$ 4,547,311	$ 8,008,231	$ 89,192,719

</TABLE>

Information concerning the Company's continuing operations in the various segments for the three-month periods ended September 30, 2000 and 1999 is as follows:

<TABLE>
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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Three Months Ended September 30, 2000:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 13,571,136	$ 2,127,350	$ 10,977,439	$ 2,978,183		$ 29,654,108
Cost of sales	9,690,115	1,873,865	6,922,403	2,128,953		

						20,615,336
Gross profit	3,881,021	253,485	4,055,036	849,230		9,038,772
Selling, general and administrative expenses	1,849,024	374,772	3,577,225	1,041,230	$ 345,647	7,187,898
Operating income (loss)	$ 2,031,997	$ (121,287)	$ 477,811	$ (192,000)	$ (345,647)	$ 1,850,874
Depreciation and amortization	$ 557,833	$ 195,492	$ 404,343	$ 126,138	$ 45,000	$ 1,328,806
Capital expenditures	$ 341,530	$ 92,848	$ 22,087	$ 101,497	$ 3,705	$ 561,667
Three Months Ended September 30, 1999:						
Revenues	$ 14,444,556	$ 3,007,289	$ 9,404,629	$ 2,422,212		$ 29,278,686
Cost of sales	9,476,906	2,455,586	5,734,781	1,476,254		19,143,527
Gross profit	4,967,650	551,703	3,669,848	945,958		10,135,159
Selling, general and administrative expenses	2,060,648	332,359	3,748,642	946,635	$ 455,319	7,543,603
Operating income (loss)	$ 2,907,002	$ 219,344	$ (78,794)	$ (677)	$ (455,319)	$ 2,591,556
Depreciation and amortization	$ 689,374	$ 160,744	$ 460,400	$ 118,638	$ 40,500	$ 1,469,656
Capital expenditures	$ 524,615	$ 102,089	$ (23,214)	$ 60,091	$ 26,747	$ 690,328

</TABLE>

NOTE 4 - INVENTORIES

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

	September 30 2000	December 31 1999
Finished Goods	$ 10,131,621	$ 7,418,810
Raw Materials	19,505,093	13,750,132
Total	$ 29,636,714	$ 21,168,942

NOTE 5 - 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 September 30, 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.

Statements regarding the Company's anticipated performance in future periods are forward looking and involve risks and uncertainties, including but not limited to: buying patterns of its Regional Bell Operating Customers, competitor's products, the success of its recent acquisitions, changes in tax laws, particularly in regard to taxation of its subsidiary in Puerto Rico.

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

Nine Months Ended September 30, 2000 Compared to
Nine Months Ended September 30, 1999

Consolidated sales increased 8% to $92,592,000. Consolidated operating income decreased 18% to $6,465,000.

Suttle sales decreased 1% to $44,090,000. Sales to the major telephone companies (Bell South, SBC, Verizon and Qwest) decreased $3,114,000 or 11%. Sales to these customers accounted for 56% of Suttle's sales. The sales decrease to these customers was principally due to the merger between GTE and Bell Atlantic (now Verizon) which disrupted normal procurement activities at both companies. Additionally, a labor strike against Bell Atlantic reduced its telephone installation and maintenance activities and adversely affected Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $3,410,000, or 29%. Sales to retail customers decreased $570,000 or 25% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada, increased $4,000 to $1,709,000.

Suttle's sales results by product line were mixed in the 2000 period. Gains were mainly from sales of data products, which increased 58% from the 1999 period. New data product offerings, especially products suitable for high-speed data transmission, are getting exceptional acceptance from customers. However, Suttle is experiencing supply problems with certain raw materials for these products, resulting in delays in shipments to customers of some products. Data product sales gains were offset by lower sales of Suttle's voice products. Revenues from CorroShield products, which are sold mainly to the major telephone companies, decreased 8%. Sales of conventional voice products declined 10%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products decreased 13%.

Suttle's gross margins decreased 12% to $13,763,000. Gross margin percentage declined to 31.2% in 2000 from 35.0% in 1999. The decline in gross margin was due to price-cutting to meet competition as well as unfavorable overhead comparisons caused by lower than anticipated production volume. Suttle's operating income decreased $1,309,000 or 14%.

Austin Taylor's sales decreased 14% to $7,489,000. The decrease was due to reduced sales of CATV products, below plan sales to Pacific Rim telephone companies and the effects of changes in foreign exchange rates. Austin Taylor's gross margin declined 28% to $1,188,000. Gross margin as a percentage of sales was 16% compared to 19% in 1999. The decline in gross margin was principally due to lower business volume. Selling, general and administrative expenses increased $188,000 due to increased sales efforts in the Pacific Rim. Austin Taylor had an operating loss of $14,000 in the 2000 nine months compared to operating income of $632,000 in the 1999 period.

Sales by Transition Networks, Inc. increased $3,350,000 or 13%. The sales gain was due to increased demand for media conversion products and the full year effect of the acquisition of LANart Corporation in April 1999. Gross margin on Transition Networks' sales increased 16% to $11,244,000. Gross margin as a percentage of sales increased to 38% from 37% in 1999, principally due to higher volume. Selling, general and administrative expenses increased $834,000 or 8%. Transition Networks had operating income of $8,000 in the 2000 period compared to an operating loss of $685,000 in 1999. The 1999 period included costs associated with merging LANart Corporation into Transition Networks.

Sales by JDL Technologies, Inc. increased $5,119,000 or 80%. However, most of the sales increase was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL's gross margin increased 30% to $2,770,000. Gross margin as a percentage of sales decreased to 24% from 33% in the 1999 period. Selling, general and administrative expenses increased $889,000, or 39%, due to expanded sales efforts. JDL's operating loss was $406,000 compared to $151,000 in the 1999 period.

Consolidated investment income, net of interest expense, increased $33,000 due to higher returns on invested funds and lower average borrowing from banks. Income before income taxes decreased $1,433,000 or 18%. The Company's effective income tax rate was 19.4% compared to 22.4% in 1999. The decrease in the tax rate was because a higher percentage of the Company's earnings was sheltered from U.S. tax in the 2000 period. Net income decreased $913,000 or 14%.

Three Months Ended September 30, 2000 Compared to
Three Months Ended September 30, 1999

Consolidated sales increased 1% to $29,654,000. Consolidated operating income decreased 29% to $1,851,000.

Suttle sales decreased 6% to $13,571,000. Sales to the major telephone companies decreased $2,193,000 to $6,710,000. Sales to these customers accounted for 49% of Suttle's sales. The sales decrease to these customers was principally due to the merger between GTE and Bell Atlantic (now Verizon) which disrupted normal procurement activities at both companies. Additionally, a labor strike against Bell Atlantic reduced its telephone installation and maintenance activities and adversely affected Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $1,175,000, or 27%. Sales to retail customers decreased $89,000 or 13% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales increased $250,000 to $723,000.

Sales of Suttle's voice products (CorroShield and conventional products) declined $1,881,000 or 16%. Sales of voice products were down due to business disruptions at major telephone customers. Sales of conventional voice products are also being harmed by price competition from foreign manufacturers. Sales of data products increased 48% from the 1999 period. New data product offerings, especially products suitable for high-speed data transmission, are getting exceptional acceptance from customers. However, Suttle is experiencing supply problems with certain raw materials for these products, resulting in delays in shipments to customers of some products. Sales of fiber-optic connector products decreased 7%.

Suttle's gross margins decreased 22% to $3,881,000. Gross margin percentage declined to 28.6% in 2000 from 34.4% in 1999. The decline in gross margin was due to price-cutting to meet competition as well as unfavorable overhead comparisons caused by lower than anticipated production volume. Suttle's operating income decreased $875,000 or 30%.

Austin Taylor's sales decreased 29% to $2,127,000. The decrease was due to reduced sales of CATV products and below plan sales to international customers. Austin Taylor's gross margin declined 54% to $253,000. Gross margin as a percentage of sales was 12.0% compared to 18.3% in 1999. The decline in gross margin was principally due to lower business volume. Selling, general and administrative expenses increased $42,000 due to increased sales efforts in the Pacific Rim. Austin Taylor had an operating loss of $121,000 in the 2000 period compared to operating income of $219,000 in 1999.

Sales by Transition Networks, Inc. increased $1,573,000 or 17%. Gross margin on Transition Networks' sales increased 10% to $4,055,000. Gross margin as a percentage of sales decreased to 37% from 39% in 1999. Selling, general and administrative expenses decreased $171,000 or 5%. During the third quarter of 2000, the Company implemented a cost reduction program aimed at lowering this unit's overhead structure by 20%. The program will be continued into the fourth quarter. Transition Networks had operating income of $478,000 in the 2000 period compared to an operating loss of $78,000 in 1999.

Sales by JDL Technologies, Inc. increased 23% to $2,978,000. However, most of the sales increase was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL's gross margin decreased $97,000 to $849,000. Gross margin as a percentage of sales decreased to 29% from 39% in the 1999 period. Selling, general and administrative expenses increased $95,000, or 10%, due to JDL's expanded sales efforts. JDL's operating loss was $192,000 compared to a loss of $1,000 in the 1999 period.

Consolidated investment income, net of interest expense, decreased $103,000 due to increased interest on bank borrowings and smaller cash balances available for investment. Income before income taxes decreased $844,000 or 31%. The Company's effective income tax rate was 18.8% compared to 22.2% in 1999. Net income decreased $594,000 or 28%.

Liquidity and Capital Resources

At September 30, 2000, the Company had approximately $6,683,000 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 $42,901,000 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.

The Company had an operating cash flow deficit of $8,129,000 in the first nine months of 2000 compared to positive operating cash flow of $9,823,000 in the same period in 1999. The Company used substantial amounts of cash to support higher accounts receivable and inventory balances at JDL Technologies and Transition Networks in the 2000 period. Some of these expenditures were made in anticipation of higher business volumes that have failed to materialize. The Company is adjusting the business plans of these operations in order to conserve cash and reduce inventory and accounts receivable levels.

Investing activities utilized $1,190,000 of cash in the 2000 period. Cash investments in new plant and equipment totaled $1,922,000, which was financed by internal cash flows. The Company expects to spend a total of $3,000,000 on capital additions in 2000.

Net cash flows from financing activities were $1,211,000 for the first nine months of 2000. The Company retired $3,932,000 of notes payable in the first nine months of 2000. However, cash requirements at JDL Technologies and Transition Networks necessitated $5,000,000 of new borrowing from June through September 2000. Notes payable were $10,111,000 at September 30, 2000 compared to $9,043,000 at December 31, 1999. The Company purchased and retired 80,505 shares of its stock in open market transactions during the 2000 period. At September 30, 2000 Board authorizations are outstanding to purchase an additional 59,000 shares. Dividends paid on common stock were $2,611,000. The Company received $3,640,000 of cash in the 2000 period from exercises of employee stock options and employee stock purchases.

The Company has been and continues to be engaged in discussions and analysis concerning its future. Among the alternatives being considered is the merger of the Company with another firm. The Company has retained US Bankcorp Piper Jaffray as its investment banker to assist in these discussions. The Company has not received any formal merger offer. No assurance can be given that these discussions will result in a definitive merger agreement.

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: November 14, 2000

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