UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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 and zip code)

Registrant's telephone number, including area code: (320) 848-6231

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Common Stock, $.05 par value

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $54,101,000 based upon the closing sale price of the Company's common stock on the NASDAQ National Market System on March 22, 2001.

As of March 22, 2001 there were outstanding 8,307,209 shares of the Registrant's common stock.

Documents Incorporated by Reference: The Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 17, 2001 is incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

Communications Systems, Inc. (herein collectively called "CSI" or the "Company") is a Minnesota corporation organized in 1969 which operates directly and through its subsidiaries located in the United States (including Puerto Rico), Costa Rica and the United Kingdom. CSI is principally engaged in the manufacture and sale of modular connecting and wiring devices for voice and data communications.

Effective August 7, 1998, the Company acquired JDL Technologies, Inc. ("JDL"). JDL, located in Edina, Minnesota, provides telecommunications network design, specification, and training services to educational institutions. JDL also sells internet access software for use in elementary and secondary schools. The acquisition was accounted for as a purchase and operations of JDL have been included in consolidated operations from August 7, 1998.

Effective December 1, 1998, the Company acquired Transition Networks, Inc. ("TNI"). TNI, located in Eden Prairie, Minnesota is a manufacturer of media and rate conversion products, which permit telecommunications networks to move information between copper-wired equipment and fiber-optic cable. The acquisition was accounted for as a purchase and operations of TNI have been included in consolidated operations from December 1, 1998.

Effective April 7, 1999, the Company acquired LANart Corporation, a designer and manufacturer of application specific integrated circuits located in Needham, Massachusetts, for approximately $4,800,000. The operations and reporting activities have been merged into the Company's Transition Networks, Inc. subsidiary. The acquisition was accounted for as a purchase and operations of LANart Corporation have been included in consolidated results from April 7, 1999.

Additional information on these acquisitions can be found in subparagraphs (c)(1)(iii) and (c)(1)(iv) under Item 1 herein, in "Acquisitions and Dispositions" under Item 7, Management's Discussion and Analysis and in Note 8 of Notes to Consolidated Financial Statements under Item 8, herein.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

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 other operations; JDL Technologies, Inc. provides telecommunications network design, specification and training services to educational institutions. The Company conducts manufacturing in the United States (including Puerto Rico), the United Kingdom and Costa Rica. Information regarding operations in the various segments is set forth in Note 9 of the Notes to Consolidated Financial Statements under Item 8, herein.

(c) NARRATIVE DESCRIPTION OF BUSINESS

(i) Suttle

The Company manufactures and markets connectors and wiring devices for voice, data and video communications under the "Suttle" brand name in the United States (U.S.) and internationally. The Company also manufactures a line of high performance fiber-optic connectors, interconnect devices and fiber cable assemblies for the telecommunications, computer and electronics markets. Products are manufactured at the Company's plants in Hector, Minnesota (Suttle Apparatus Minnesota Division), Humacao, Puerto Rico (Suttle Caribe, Inc.) and San Jose, Costa Rica (Suttle Costa Rica, S.A.). Segment sales were $55,111,000 in 2000, or 46% of consolidated revenues and $58,670,000 or 50% in 1999.

(A) Products

Suttle's products are used in on-premise connection of telephones, data terminals and related equipment. The product line consists primarily of modular connecting devices and includes numerous types of jacks, connecting blocks and assemblies, adapters, cords and related equipment, which are offered in a variety of colors, styles and wiring configurations. Most of the products are used in voice applications, but the Company continues to develop an expanding line of products for network systems applications. A significant portion of the Company's revenues are derived from sales of a line of corrosion resistant connectors which utilize a water resistant gel to offer superior performance in harsh environments. Station apparatus products generally range in price from $.70 to $25.00 per unit. A majority of the sales volume, both in units and revenues, is derived from products selling for under $5.00.

The Company also produces high performance fiber-optic connectors, interconnect devices and fiber cable assemblies that are used in high-speed fiber-optic networks and local area network connections. The Company's patented Quick Term TM fiber optic connector significantly reduces installation time and costs associated with making fiber connections. By eliminating the need for a curing oven, the product reduces field installation time for this process from 20 minutes to 2 minutes. The Company's fiber-optic connector products range in price from $2.50 to $1,500.00.

The Company also manufactures DSL (Digital Subscriber Lines) filters for home and business applications. These filters permit the user to receive both analog and digital signals simultaneously and allow a single telephone line to support uninterrupted voice, fax and internet capabilities.

(B) Markets and Marketing

Suttle competes in all major areas of the telecommunications connector market characterized by modular four, six and eight conductor jacks. Customers include the major telephone companies ("RBOCs" which are Verizon Logistics, Bell South, SBC Communications, and Qwest), other telephone companies, electrical contractors, interconnect companies, original equipment manufacturers and retailers. These customers are served directly through the Company's sales staff and through distributors such as Sprint North Supply, Graybar Electric Company, Alltel Supply, KGP and Anixter Communications.

As a group, sales to the major telephone companies, both directly and through distribution, were approximately $29,713,000 in 2000 and $35,526,000 in 1999, which represented 54% of Suttle's sales in 2000 and 60% in 1999. Sales to Verizon Logistics, Alltel Supply and KGP, the principal distributors serving this market, amounted to 20%, 17% and 14%, respectively, of Suttle's sales in 2000. Sales to Verizon Logistics, Alltell Supply and KGP were 18%, 12% and 16%, respectively, of Suttle's sales in 1999.

The Company believes business and network systems products will become an increasingly important part of its product line. Independent contractors (which include businesses often referred to as "interconnect companies") are engaged in the business of engineering, selling, installing and maintaining telephone equipment for the business community. The Company markets its products to independent contractors through a network of manufacturer's representatives, through distribution, and through the Company's sales staff. Sales of products for business and network systems accounted for 16% and 10% of Suttle's revenues in 2000 and 1999, respectively.

Approximately 4% of Suttle's 2000 revenues and 5% of 1999 revenues were derived from sales in the retail market. The Company is a supplier of station apparatus to Radio Shack, other retailers, office supply distributors and specialized telephone stores. Sales to the retail market are made through a limited number of manufacturers' representatives.

Fiber-optic products are marketed to original equipment manufacturers (OEMs) in the U.S. and internationally through the Company's sales staff, manufacturers' representatives and a network of distributors, including Graybar Electric Company, Arcade Electronics and Branch Datacom. Sales of fiber-optic products accounted for 4% of Suttle's revenues in 2000 and 1999. Sales of DSL products introduced in 2000 represented an additional 4% of sales.

The balance of Suttle's sales in 2000 and 1999 were to original equipment manufacturers, non-major telephone companies and international customers. In the communications industry market, sales to telephone companies are made directly or through distribution. Sales to OEM customers are made through a nationwide network of distributors, some of which are affiliates of major telephone companies, and through the Company's sales staff.

(C) Competition

Suttle encounters strong competition in all its product lines. The Company competes primarily on the basis of the broad lines of products offered, product performance, quality, price and delivery.

Suttle's principal competitors for sales to telephone companies and independent contractors include Lucent Technologies, Ortronics, Leviton, Hubbell, Northern Telecom and AMP, Inc. Most of these companies have greater financial resources than the Company. In addition, distributors of the Company's apparatus products also market products for one or more of these competitors. Lucent Technologies markets to telephone companies and independent contractors directly and through telephone industry distributors that also market the Company's products.

In retail markets, the Company experiences significant competition from importers of low-priced modular products that market their products directly and through a number of distributors to various retail outlets.

The Company's principal competitor for sales to the Regional Bell Operating Companies is Lucent Technologies. To date, foreign manufacturers of apparatus products have not presented significant competition for sales to this market.

(D) Order Book

Suttle manufactures its products on the basis of estimated customer requirements. Outstanding customer orders at March 1, 2001, were approximately $1,839,000 compared to approximately $3,992,000 at March 1, 2000. Because new orders are filled on a relatively short timetable, the Company does not believe its order book is a significant indicator of future results.

(E) Manufacturing and Sources of Supply

The Company's station apparatus products are manufactured using plastic parts, wire sub-assemblies, fasteners, brackets, electronic circuit boards and other components, most of which are fabricated by the Company. There are multiple sources of supply for the materials and parts required and the Company is not dependent upon any single supplier, except that Suttle's corrosion resistant products utilize a moisture-resistant gel-filled fig available only from Raychem Corporation. The unavailability of the gel-filled figs from Raychem Corporation could have a material adverse effect on the Company. The Company has not generally experienced significant problems in obtaining its required supplies, although from time to time spot shortages are experienced.

(F) Research and Development; Patents

The Company continually monitors industry requirements and creates new products to improve its existing station apparatus product line. The Company's CorroShield line of corrosion resistant products was introduced in 1993, as was the Flex-Plate line of data products. The Company added additional products to these product lines in 1994 and 1995. The Company's SpeedStar line of high-speed data connectors was introduced in early 1996. In 1997, a proprietary Category 5 connector was developed which meets the highest current industry standard. In 2000, DSL (Digital Subscriber Lines) filters for home and business applications were introduced.

Historically, the Company has not relied on patents to protect its competitive position in the station apparatus market. However, duplication of Company designs by foreign apparatus manufacturers has caused the Company to apply for design patents on a number of station apparatus products.

The Company's "Suttle Apparatus" brand name is important to its business. The Company regularly supports this name by trade advertising and believes it is well known in the marketplace.

(ii) Austin Taylor

Austin Taylor Communications, Ltd. manufactures voice and data connectors and related products at its plant in Bethesda, Wales, U.K. Its product line consists of British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames. Sales by Austin Taylor were $10,148,000, or 8% of consolidated revenues, in 2000 and $12,031,000 or 10% in 1999.

Austin Taylor is a vertically integrated manufacturer with metal stamping, metal bending, forming and painting, plastic injection molding and printed circuit board assembly capabilities. Austin Taylor's major customers include Cable and Wireless Communications, Northern Telecom Europe, Lucent Technologies and British Telecom. Austin Taylor's products are sold directly by its sales staff and through distributors, including Anixter Communications, NS Supply Group, RS Components and Telcom Products. Approximately 32% and 52% of Austin Taylor sales were to United Kingdom customers in 2000 and 1999, respectively.

The Company believes the European telecommunications market will offer increasing opportunities as the European Economic Community eliminates trade barriers and standardizes use of modular connector products. Austin Taylor also serves as a base to manufacture and/or distribute Suttle products and jointly developed products in the United Kingdom, Europe and internationally. The Company markets Austin Taylor products in the U.S., Canada, and other markets.

Outstanding customer orders for Austin Taylor products were approximately $595,000 at March 1, 2001 compared to $1,587,000 at March 1, 2000. Because Austin Taylor fills new orders on a relatively short timetable, the Company does not believe its order book is a significant indicator of future results.

(iii) Transition Networks

Effective December 1, 1998, by its acquisition of Transition Networks, Inc., the Company entered the rapidly growing market for media conversion products. Located in Eden Prairie, Minnesota, TNI manufactures a line of media and rate conversion products that permit telecommunications networks to move information between copper-wired equipment and fiber-optic cable. The products make it possible for customers to take advantage of the newer technologies and higher data transmission speeds supported by fiber without sacrificing their investments in older, copper based equipment. In April 1999, the company acquired LANart Corporation which has been merged into the operations of Transition Networks. LANart designs and produces the application-specific integrated circuits (ASIC chips) for its conversion products. This acquisition makes TNI the industry's largest supplier of conversion devices.

TNI markets its products in the U.S. and internationally through its sales staff and a limited number of distributors. Sales to two major distributors represented 56% of total TNI sales in 2000. TNI has international sales offices in London and Prague and distribution partners in South America and the Pacific Rim. TNI is generally regarded as the market leader in conversion technology. Its principal competitors include Allied Telsyn International and Digi International. Sales by TNI for 2000 were $39,574,000 and represented 33% of consolidated revenues compared to 1999 sales of $35,682,000 or 30% of consolidated CSI revenues.

Outstanding customer orders for TNI products were approximately $1,225,000 at March 1, 2001 and $644,000 at March 1, 2000. TNI also fills new orders on a relatively short-term basis and therefore does not believe its order book is a significant indicator of future results.

(iv) JDL Technologies, Inc.

JDL Technologies, Inc. provides telecommunications network design, specification, and training services to educational institutions. JDL also sells internet access software for use in elementary and secondary schools. JDL was acquired effective August 7, 1998. Sales by JDL for 2000 totaled $14,887,000 and represented 12% of consolidated revenues. Total sales for 1999 totaled $11,141,000 or 10% of consolidated revenues. Sales of hardware, software and related equipment totaled $12,285,000 in 2000 or 83% of total sales compared to 1999 hardware, software and related equipment of $8,613,000 or 77% of total sales. Training, support and consulting sales totaled $2,595,000 and $2,501,000 in 2000 and 1999, respectively. Sales of hardware products, consulting and training services to two large school districts totaled $11,725,000 in 2000.

Outstanding customer orders for JDL products and services were approximately $2,350,000 as of March 1, 2001 and $4,100,000 at March 1, 2000. JDL does not believe its order book is a significant indicator of future results.

(2) Employment Levels

As of March 1, 2001 the Company employed 924 people. Of this number, 637 were employed by Suttle (including 186 in Puerto Rico, 171 in Hector, Minnesota and 280 in Costa Rica), 160 by Austin Taylor Communications, Ltd., 79 by Transition Networks, Inc., 33 by JDL Technologies, Inc. and 15 general and administrative positions. The Company considers its employee relations to be good.

(3) Factors Affecting Future Performance

From time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, the Company may make forward-looking statements concerning possible or anticipated future financial performance, business activities or plans which are typically preceded by the words "believes", "expects", "anticipates", "intends" or similar expressions. For such forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements are subject to risks and uncertainties which could cause actual performance, activities or plans to differ significantly from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to: lower sales to RBOCs and other major customers; competitive products and technologies; our ability to successfully reduce operating expenses at certain business units; the general health of the telecom sector, profitability of recent acquisitions; delays in new product introductions; higher than expected expense related to new sales and marketing initiatives; availability of adequate supplies of raw materials and components; fuel prices; and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission.

(4) Executive Officers of Registrant

The executive officers of the Company and their ages at March 1, 2001 were as follows:

Name	Age	Position 1
Curtis A. Sampson	67	Chairman of the Board and Chief Executive Officer [1970]

Jeffrey K. Berg	58	Executive Vice President and Chief Operating Officer [2000]2
Paul N. Hanson	54	Vice President - Finance, Treasurer and Chief Financial Officer [1982]
Daniel G. Easter	44	President, Transition Networks, Inc. [2000] 3
Lee Ludlam	40	Managing Director Austin Taylor Communications, Ltd. [1998]4
Thomas J. Lapping	42	President, JDL Technologies, Inc. [1998]5

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1 Dates in brackets indicate period during which officers began serving in such capacity. Executive officers serve at the pleasure of the Board of Directors and are elected annually for one-year terms.

2 Mr. Berg was appointed Chief Operating Officer of Communications Systems, Inc. in November 2000. Prior to November 2000, Mr. Berg served as President and General Manager of the Company's Suttle Apparatus Corporation.

3 Mr. Easter was appointed President of Transition Networks, Inc. in September 2000. From July 1997 to September 2000 he served as Transition Networks' Vice President of Sales and Marketing. Prior to July 1997, he was an executive of Allied Telesyn International Corporation in Seattle, WA.

4 Mr. Ludlam was appointed Managing Director of Austin Taylor in November 1998. From December 1995 to November 1998, he served as Austin Taylor's Director of Manufacturing. Prior to December 1995 he served as Austin Taylor's plant manager.

5 JDL Technologies, Inc. was acquired by the Company in 1998. Mr. Lapping founded JDL Technologies, Inc. in 1989. Prior to 1989 Mr. Lapping served as National Education Sales Manager for Control Data Corporation.

Messrs. Sampson and Hanson each devote approximately 60% of their working time to the Company's business with the balance devoted to management responsibilities at Hector Communications Corporation ("HCC"), a diversified telecommunications holding company also headquartered in Hector, Minnesota, for which they are separately compensated by HCC.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Financial information about domestic and foreign operations and export sales may be obtained by reference to Note 9 of the "Notes to Consolidated Financial Statements" under Item 8 herein.

ITEM 2. PROPERTIES

The administrative and manufacturing functions of CSI are conducted at the following facilities:

- In Hector, Minnesota the Company owns a 15,000 square foot building where its executive and administrative offices are located.

- Suttle's manufacturing is conducted at three locations. At Hector, Minnesota, the Company owns three plants totaling 68,000 feet of manufacturing space. The Company has a long-term lease from the Puerto Rico Industrial Development Company on three facilities in Humacao, Puerto Rico aggregating 65,000 square feet. The Company leases 40,000 square feet of manufacturing space in San Jose, Costa Rica.

- Austin Taylor Communications, Ltd. owns a 40,000 square foot facility and leases a 6,000 square foot facility in Bethesda, Wales. Austin Taylor also leases a distribution center in Hong Kong.

- Transition Networks, Inc. leases a 27,000 square foot facility in Eden Prairie, Minnesota where its manufacturing and administrative facilities are located.

- JDL Technologies, Inc. leases an 11,000 square foot facility in Edina, Minnesota, which houses its business operations.

- The Company owns a 35,000 square foot plant in Lawrenceville, Illinois. This facility is for sale, but is currently leased to other tenants, pending a sale.

CSI believes these facilities will be adequate to accommodate its administrative and manufacturing needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

No material litigation or other claims are presently pending against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET MATTERS FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) MARKET INFORMATION

The Company's common stock is currently traded in the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ").

The table below presents the price range of high and low trades of the Company's common stock for each quarterly period indicated as reported by NASDAQ:

	2000		1999	
	High	Low	High	Low
First	$24.00	$12.56	$12.88	$9.50
Second	18.63	13.13	13.75	8.50
Third	17.88	12.00	14.75	10.50
Fourth	14.13	7.25	14.75	10.25

(b) HOLDERS

At March 1, 2001 there were approximately 860 holders of record of Communications Systems, Inc. common stock.

(c) DIVIDENDS

The Company has paid regular quarterly dividends since October 1, 1985. The per share quarterly dividends payable were $.10 in 1999 and 2000.

ITEM 6. SELECTED FINANCIAL DATA
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL INFORMATION
(in thousands except per share amounts)

	Year Ended December 31				
	2000	1999	1998	1997	1996
Selected Income Statement Data					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues From Continuing Operations	$119,720	$117,525	$ 71,570	$ 76,114	$ 69,042
Costs and Expenses:					
Cost of Sales	82,355	77,280	50,599	52,684	48,056
Selling, General and Administrative Expenses	29,432	28,907	12,413	10,947	10,581

Total Costs and Expenses	111,787	106,187	63,012	63,631	58,637
Operating Income From Continuing Operations	7,933	11,338	8,558	12,483	10,405
Other Income, Net	339	296	1,259	1,654	799
Income From Continuing Operations Before Income Taxes	8,272	11,634	9,817	14,137	11,204
Income Tax Expense	1,600	2,620	1,950	3,200	2,250
Income From Continuing Operations	6,672	9,014	7,867	10,937	8,954
Income (Loss) From Discontinued Operations, Net of Taxes					(721)
Net Income	$ 6,672	$ 9,014	$ 7,867	$ 10,937	$ 8,233
Basic Net Income (Loss) Per Common Share:					
Continuing Operations	$ .76	$ 1.04	$ .87	$ 1.18	$ .97
Discontinued Operations					(.08)
Basic Net Income Per Share	$ .76	$ 1.04	$ .87	$ 1.18	$ .89
Diluted Net Income (Loss) Per Common Share					
Continuing Operations	$ .75	$ 1.03	$ .87	$ 1.17	$ .96
Discontinued Operations					(.08)
Diluted Net Income Per Share	$ .75	$ 1.03	$ .87	$ 1.17	$ .88
Cash Dividends Per Share	$ .40	$ .40	$ .38	$ .34	$ .30
Average Common and Potential Common Shares Outstanding	8,865	8,727	9,084	9,325	9,352
Selected Balance Sheet Data					
Total Assets	$ 93,198	$ 91,476	$ 83,900	$ 77,518	$ 67,596
Property, Plant and Equipment, Net	10,106	10,960	11,379	9,675	8,965
Working Capital	45,486	34,787	37,245	48,514	35,906
Net Assets of Discontinued Operations					537
Stockholders' Equity	71,267	66,422	63,454	69,264	59,015

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2000 Compared to 1999

Consolidated sales increased 2% to $119,720,000 in 2000. Consolidated operating income decreased 30% to $7,933,000. Overall, CSI was adversely affected by the slowdown in purchasing by telecommunications service providers due to general weakening economic conditions and continuing consolidation within the telecom industry.

Suttle's sales decreased 6% to $55,111,000 in 2000. Sales to customers in the United States (U.S.) decreased 6% to $53,000,000. Sales to the RBOC's (Regional Bell Operating Companies) decreased 16% to $29,713,000. Sales to these customers represent 56% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased to $19,626,000 or 20% from prior year. Sales to retail customers decreased 18% to $2,413,000. Suttle's international sales decreased by 9% to $2,121,000 in 2000.

The sales decreases were reflected in most product lines with the exception of data connector products and DSL (Digital Subscriber Lines) filters. CorroShield (standard voice jack for most telephone applications) product sales fell 13% to $23,412,000 in 2000. Sales of fiber-optic connector products decreased 13% to $2,027,000. Sales of data products increased 56% in 2000 to $8,883,000. DSL filters (introduced in 2000) sales were $2,226,000 or 4% of Suttle's sales.

Suttle's gross margins declined 16% to $17,419,000 with the gross margin percentage declining to 31.6% in 2000 from 35.7% in 1999. The gross margin decline is due primarily to lower business volumes and pricing reductions due to competitive pressures. Selling, general and administrative expenses decreased $216,000 or 3%. Operating income declined by $3,224,000 or 25%.

Austin Taylor's sales decreased by 16% to $10,148,000 in 2000. The sales decrease was due to below plan sales to several key United Kingdom (U.K.) accounts. Gross margin decreased by $743,000 or 37% from prior year and as a percentage of sales decreased 4.2% in 2000. The gross margin decline is due to lower business volumes and pricing reductions. Selling, general and administrative expenses increased $205,000. Operating income declined $948,000.

Transition Network's sales increased $4,211,000 or 11% to $39,574,000. The sales increase was due to increased volumes and related market share of the Company's media conversion technology products. Operating income increased by $878,000 to $705,000. Sales to distributors were $21,760,000 or 55% of total sales in 2000. Sales to system integrators and resellers represented 22% and 16% of total Transition sales respectively. The balance of sales by Transition Networks was made to OEMs and through catalog sales and represented 7% of total sales. Sales to international customers were $14,237,000 and were 36% of total sales in 2000 compared to $10,297,000 or 30% in 1999. New product sales accounted for 1% of sales in 2000. Gross margin increased by $894,000 but as a percentage of sales decreased by 2%. Selling, general and administrative expenses decreased by $141,000 and 5% as a percentage of sales.

JDL Technologies sales increased by $3,746,000 or 34% in 2000. The sales increase was due to higher sales of computer and network hardware in 2000 compared to 1999. Operating income decreased by $438,500 compared to 1999. Computer and network hardware represented $12,285,000 or 83% of total JDL revenues in 2000 compared to 77% in 1999. Consulting, training and support was $2,595,000 or 17% of total sales compared to 23% of total sales in 1999. Gross margin in 2000 was $3,556,000 or 24% in 2000 compared to $3,147,000 or 28% in 1999. Selling, general and administrative expenses increased to $3,834,000 in 2000 from $2,986,000 in 1999 but as a percentage of sales decreased 1% to 26%.

Consolidated investment income, net of interest expense, increased by $43,000 due to increased earnings on invested funds. Income from continuing operations before income taxes decreased 30% to $3,404,000. The Company's effective income tax rate was 19.3% in 2000 as compared to 22.5% in 1999. The decrease in the tax rate was attributable to lower U.S. and U.K. earnings, which are subject to higher tax rates than Puerto Rico earnings. Consolidated net income decreased 26% to $6,672,000 or $.75 per diluted share compared to $1.03 in 1999. The consolidated net income decrease was due primarily to a consolidated 3% decline in gross margin. Consolidated selling, general and administrative expenses remained at approximately 25% of gross revenues.

1999 Compared to 1998

Consolidated sales increased 64% to $117,525,000. Consolidated operating income increased 32% to $11,338,000. The majority of the Company's 1999 sales growth was generated by three strategic acquisitions that positioned the Company in the broadband and high-speed networking markets. The Company acquired JDL Technologies, Inc. in August 1998; Transition Networks, Inc. in December 1998; and LANart Corporation in April 1999. LANart Corporation was subsequently merged into Transition Networks. These acquisitions generated 40% of the Company's consolidated sales in 1999. The balance of the revenue was comprised of sales of the Company's traditional voice communications products through the Suttle operations and Austin Taylor Communications, Ltd.

Suttle sales increased 5% to $58,670,000. Sales to customers in the United States (U.S.) increased 5% to $56,073,000. Sales to the major telephone companies increased 7% to $35,526,000. Sales to these customers account for 63% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs) and electrical contractors increased $2,010,000 or 14%. Sales to retail customers decreased by $1,246,000 or 29%, due primarily by decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada increased by $305,000 or 15%.

The Suttle sales increases were due to a 21% increase in CorroShield product sales to $26,967,000 in 1999. CorroShield products continue to displace conventional voice connecting products, sales of which declined approximately 3% in 1999. Data sales decreased 5% to $5,683,000 and fiber-optic connector products decreased to approximately $2,317,000 in revenue.

Suttle's gross margins increased by 14% to $20,859,000 in 1999. The gross margin percentage increased to 35.7% from 32.7% in 1998. The increase in gross margin was due to lower raw material costs and increased sales of CorroShield products, which carry higher margins than conventional products. Selling, general and administrative expenses increased by $181,000 or 2%. Suttle's operating income increased by $2,502,000 or 24%.

Austin Taylor's sales increased 3% to $12,031,000. The sales increase was due to increased export sales. Austin Taylor began shipping a new family of corrosion-resistant products to customers in the Far East in the third quarter of 1999. Gross margin increased by $186,000, or 10%, to $2,021,000. Gross margin as a percentage of sales increased to 16.8% from 15.7% in 1998. Selling, general and administrative expenses increased $23,000. Operating income increased by $163,000 or 26%.

The Company acquired JDL Technologies, Inc. ("JDL") in August 1998 and Transition Networks, Inc. ("TNI") in December 1998. JDL had sales of $1,681,000 in the last five months of 1998, and an operating loss of $675,000. JDL reported $11,140,000 in 1999 revenue with operating income of $116,000. TNI and LANart had combined revenues of $35,682,000 and an operating loss of $173,000. TNI had 1998 sales of $2,232,000 and an operating loss of $334,000 after its acquisition by the Company.

Consolidated investment income, net of interest expense, decreased by $963,000 due to decreased levels of funds available for investment and also increased interest expense on notes payable relative to recent acquisitions. Income from continuing operations before income taxes increased $1,817,000 or 18.5%. The Company's effective income tax rate was 22.5% in 1999 as compared to 19.9% in 1998. The increase in the tax rate was driven by higher U.S. and U.K. earnings, which are subject to higher tax rates than Puerto Rico earnings. Consolidated net income increased 15% to $9,014,000 or $1.03 per diluted share. Per share earnings in 1999 were favorably affected by a reduction in average shares outstanding in comparison to 1998 due to the repurchase of common shares.

Acquisitions and Dispositions

Effective December 1, 1998, the Company acquired Transition Networks, Inc. ("TNI") in exchange for $8,507,000 of cash (net of cash acquired). TNI is a manufacturer of media and rate conversion products, which permit telecommunications networks to move information between copper-wired equipment and fiber-optic cable.

Effective August 7, 1998, the Company acquired JDL Technologies, Inc. ("JDL") in exchange for 158,005 shares of CSI common stock. JDL provides telecommunications network design, specification, and training services to educational institutions. JDL also sells Internet access software for use in elementary and secondary schools.

Effective April 7, 1999, the Company acquired LANart Corporation, a manufacturer of applications specific integrated circuits (ASIC chips) located in Needham, Massachusetts, for approximately $4,800,000. The operations were subsequently merged with the Company's Transition Networks, Inc. subsidiary.

The acquisitions the Company has made over the past several years have served to expand the Company's product offerings and customer base in both U.S. and international markets. The Company is a growth-oriented manufacturer of telecommunications connecting and networking devices. The Company is continuing to search for acquisition candidates with products that will enable the Company to better serve its target markets.

Effects of Inflation

Inflation has not had a significant effect on operations. The Company does not have long-term production or procurement contracts and has historically been able to adjust pricing and purchasing decisions to respond to inflationary pressures.

European Currency

In January 1999, the European Monetary Union (EMU) entered into a three-year transition phase during which a common currency called the Euro was introduced in participating countries. Initially, this new currency is being used for financial transactions. It will eventually replace the national currencies of participating nations, which will be withdrawn by July 2002.

The Company does not believe introduction of the Euro will have any material effect on its business at this time. The United Kingdom, where Austin Taylor is located, is not among the countries converting to the Euro. The Company does not do significant amounts of business in other participating European nations, nor does it hold assets valued in other European currencies. The Company will continue to monitor the European currency situation and take action as required.

Liquidity and Capital Resources

At December 31, 2000, the Company had approximately $11,321,000 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 $45,486,000 and a current ratio of 3.0 to 1 compared to working capital of $34,787,000 and a current ratio of 2.4 to 1 at the end of 1999. The increase in working capital was primarily due to an increase in inventories, receivables and reduction of trade payables.

Cash flow provided by operations was approximately $162,000 in 2000 compared to $11,222,000 provided by operations in 1999. The decrease was due to the Company's increased inventory and accounts receivable levels. The Company does not anticipate this trend to continue in 2001.

Investing activities utilized $1,352,000 of cash in 2000. Cash investments in new plant and equipment totaled $2,277,000 in 2000. The Company expects to invest $2,500,000 on capital additions in 2001. The Company invested approximately $5,825,000 in the purchase of debt securities in 1999. Cash investments in new subsidiaries in 1999 and 1998 were $3,956,000 and $8,398,000 respectively.

Net cash used in financing activities was $2,234,000. Dividends paid on common stock were $3,491,000. Proceeds from common stock issuances, principally exercises of key employee stock options, totaled $3,656,000 in 2000 and $543,000 in 1999. The Company purchased and retired 267,628 and 320,136 shares of its stock in open market transactions during 2000 and 1999 respectively. Board authorizations are outstanding to purchase 123,377 additional shares. The Company may purchase and retire additional shares in 2001 if warranted by market conditions and the Company's financial position.

The bulk of Suttle's operations are located in Puerto Rico. Until 1994, substantially all the earnings of these operations were sheltered from U.S. income tax due to the possessions tax credit (Internal Revenue Code Section 936). Under provisions of the Omnibus Budget Act of 1993, which went into effect beginning in the 1994 tax year, the amount of the possessions credit is limited to a percentage of the Company's Puerto Rico payroll and depreciation. U.S. income tax expense on the Company's earnings in Puerto Rico, after full utilization of the available tax credits, was $82,000, $827,000 and $556,000 in 2000, 1999 and 1998, respectively.

Under provisions of the Small Business Job Protection Act of 1996, the possessions tax credit was repealed for years after 1995. However, companies like CSI which currently qualify for the credit, may continue to claim the credit until 2005, subject to certain limitations. As of July 1, 1996, the credit no longer applies to investment income earned in Puerto Rico. The credit will continue to apply to business income earned in Puerto Rico through 2001. For the years 2002 to 2005, the amount of Puerto Rico business income eligible for the credit will be limited to an inflation-adjusted amount based on Puerto Rico business income earned from 1990 to 1994. The possessions tax credit has a materially favorable effect on the Company's income tax expense. Had the Company incurred income tax expense on Puerto Rico operations at the full U.S. rate, income tax expense would have increased by $1,908,000, $2,023,000 and $1,947,000 in 2000, 1999 and 1998, respectively.

At December 31, 2000 approximately $31,284,000, $6,436,000 and $1,732,000 of assets were invested in the Company's subsidiaries in Puerto Rico, the United Kingdom and Costa Rica, respectively. The Company expects to maintain these investments to support the continued operation of the subsidiaries. The Company uses the U.S. dollar as its functional currency in Costa Rica. The United Kingdom is a politically and economically stable country. Accordingly, the Company believes its risk of material loss due to adjustments in foreign currency markets to be small.

At December 31, 2000, the Company's outstanding obligations for notes payable totaled $9,101,000. The Company expects to repay or refinance this credit line in 2001. The unused portion of the Company's credit line ($1,000,000 at December 31, 2000) is available for use. 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.

New Accounting Standards

On January 1, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that they have no free-standing or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not use free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which among other guidance, clarified the Staff's views on various revenue recognition and reporting matters. The Company adopted the provisions of SAB 101 in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material impact to the results of operations for the year ended December 31, 2000.

During the year ended December 31, 2000, the Company adopted the provisions of Emerging Issues Task Force (EITF) 00-10, Accounting for Shipping and Handling Fees and Costs. EITF 00-10 specifies classification guidelines for shipping and handling fees and costs incurred by sellers. Upon application of EITF 00-10, prior period amounts related to shipping and handling fees and costs were reclassified, which had no effect on previously reported net income.

REPORT OF MANAGEMENT

The management of Communications Systems, Inc. and its subsidiary companies is responsible for the integrity and objectivity of the financial statements and other financial information contained in the annual report. The financial statements and related information were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's informed judgments and estimates.

In fulfilling its responsibilities for the integrity of financial information, management maintains accounting systems and related controls. These controls provide reasonable assurance, at appropriate costs, that assets are safeguarded against losses and that financial records are reliable for use in preparing financial statements. Management recognizes its responsibility for conducting the Company's affairs according to the highest standards of personal and corporate conduct.

The Audit Committee of the Board of Directors, comprised solely of outside directors, meets with the independent auditors and management periodically to review accounting, auditing, financial reporting and internal control matters. The independent auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

/s/ Curtis A. Sampson

Curtis A. Sampson
President and Chief Executive Officer

/s/ Paul N. Hanson

Paul N. Hanson
Chief Financial Officer

March 29, 2001

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Communications Systems, Inc. and subsidiaries (the Company) as of December 31, 2000 and 1999 and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also include the financial statement schedule listed in the Index at Item 14. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP
- ------------------------
Deloitte & Touche LLP
March 2, 2001
Minneapolis, Minnesota

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31 2000	December 31 1999
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 11,321,374	$ 14,837,655
Trade accounts receivable, less allowance for doubtful accounts of $913,000 and $908,000, respectively	23,189,409	21,125,610
Inventories (Note 2)	27,479,839	21,168,942
Note receivable (Note 1)	2,965,390	400,000
Other current assets	626,139	574,530
Deferred income taxes (Note 7)	1,834,745	1,735,000
TOTAL CURRENT ASSETS	67,416,896	59,841,737
PROPERTY, PLANT AND EQUIPMENT,net (Notes 1 and 3)	10,106,044	10,959,668
OTHER ASSETS:		
Excess of cost over net assets acquired (Note 1)	6,728,995	8,819,923
Investments in debt securities (Note 1)	5,916,507	6,078,365
Note receivable (Note 1)		2,965,390
Deferred income taxes (Note 7)	2,735,811	2,168,571
Other assets	293,801	642,399
TOTAL OTHER ASSETS	15,675,114	20,674,648

TOTAL ASSETS	$ 93,198,054	$ 91,476,053

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable (Note 1)	$ 9,101,438	$ 9,043,035
Accounts payable	5,866,627	8,075,596
Accrued expenses	4,579,202	4,291,797
Dividends payable	880,391	855,087
Income taxes payable	1,503,468	2,788,746
TOTAL CURRENT LIABILITIES	21,931,126	25,054,261
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $1.00 per share; 3,000,000 shares authorized; none issued		
Common stock, par value $.05 per share; 30,000,000 shares authorized; 8,616,909 and 8,551,272 shares issued and outstanding, respectively (Notes 1 and 6)	430,846	427,564
Additional paid-in capital	28,877,135	25,302,306
Retained earnings	42,309,918	40,996,869
Stock option notes receivable (Note 6)		(288,225)
Cumulative other comprehensive income (loss)	(350,971)	(16,722)
TOTAL STOCKHOLDERS' EQUITY	71,266,928	66,421,792
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 93,198,054	$ 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

	Year Ended December 31		
	2000	1999	1998
<S>	<C>	<C>	<C>
REVENUES (Note 9):	$ 119,720,115	$ 117,524,617	$ 71,570,030
COSTS AND EXPENSES:			
Cost of sales	82,354,384	77,279,741	50,599,473
Selling, general and administrative expenses	29,432,373	28,907,288	12,412,361
TOTAL COSTS AND EXPENSES	111,786,757	106,187,029	63,011,834
OPERATING INCOME	7,933,358	11,337,588	8,558,196
OTHER INCOME (EXPENSE):			
Investment income	1,028,681	986,263	1,306,466
Interest expense	(689,867)	(690,129)	(47,237)
OTHER INCOME, net	338,814	296,134	1,259,229
INCOME BEFORE INCOME TAXES	8,272,172	11,633,722	9,817,425

INCOME TAX EXPENSE (Note 7)	1,600,000	2,620,000	1,950,000
NET INCOME	6,672,172	9,013,722	7,867,425
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	(382,435)	(153,981)	77,198
Unrealized holding gain (loss) on debt securities	73,800	(79,087)	
OTHER COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	(308,635)	(233,068)	77,198
Income tax expense (benefit) related to unrealized gains and losses on debt securities	25,614	(27,411)	
	(334,249)	(205,657)	77,198
COMPREHENSIVE INCOME	$ 6,337,923	$ 8,808,065	$ 7,944,623
BASIC NET INCOME PER COMMON SHARE (Note 1)	$ .76	$ 1.04	$ .87
DILUTED NET INCOME PER COMMON SHARE (Note 1)	$ .75	$ 1.03	$ .87
AVERAGE BASIC SHARES OUTSTANDING	8,750,279	8,644,217	9,040,000
AVERAGE DILUTED SHARES OUTSTANDING	8,865,466	8,727,140	9,084,000

See notes to consolidated financial statements.
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	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, 1997	9,326,652	$ 466,333	$24,132,771	$44,552,855	$ -	$ 111,737	$69,263,696
Net income				7,867,425			7,867,425
Issuance of stock to acquire JDL Technologies, Inc.	158,005	7,900	2,204,170				2,212,070
Issuance of common stock under Employee Stock Purchase Plan	12,210	610	112,259				112,869
Issuance of stock under Employee Stock Option Plan	84,834	4,242	938,102				942,344
Tax benefit from non qualified employee stock options			37,017				37,017

Issuance of notes receivable for stock options, net					(288,225)		(288,225)
Purchase of stock	(790,400)	(39,520)	(2,173,405)	(11,052,325)			(13,265,250)
Shareholder dividends				(3,505,492)			(3,505,492)
Other comprehensive income						77,198	77,198
	---------	---------	-----------	-----------	-----------	------------	-----------
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 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				6,672,172			6,672,172
Issuance of stock under Employee Stock Purchase Plan	30,515	1,526	316,211				317,737
Issuance of stock to Employee Stock Ownership Plan	23,692	1,184	306,812				307,996
Issuance of stock under Employee Stock Option Plan	290,159	14,508	3,323,673				3,338,181
Stock issued as compensation	8,000	400	119,600				120,000
Tax benefit from non qualified employee stock options			397,420				397,420
Purchase of stock	(286,729)	(14,336)	(888,887)	(1,843,058)			(2,746,281)
Shareholder dividends				(3,516,065)			(3,516,065)
Collection of stock option notes receivable					288,225		288,225
Other comprehensive loss						(334,249)	(334,248)
	---------	---------	-----------	-----------	-----------	------------	-----------
BALANCE AT DECEMBER 31, 2000	8,616,909	$ 430,846	$28,877,135	$42,309,918	$ -	$ (350,971)	$71,266,928
	=========	=========	===========	===========	===========	============	===========

See notes to consolidated financial statements.

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

Year Ended December 31

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	$ 6,672,172	$ 9,013,722	$ 7,867,425
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,098,123	4,801,290	3,085,533
Deferred taxes	(666,985)	(816,225)	(702,323)
Tax benefit from non-qualified stock options	397,420		
Changes in assets and liabilities net of effects from acquisitions:			
Decrease (increase) in accounts receivable	(2,222,176)	(4,744,476)	2,651,591
Decrease (increase) in inventory	(6,455,692)	693,624	1,073,699
Decrease (increase) in other current assets	(55,759)	(99,920)	1,045,802
Increase (decrease) in accounts payable	(2,071,389)	2,241,620	(1,114,838)
Increase (decrease) in accrued expenses	739,557	(581,638)	(353,930)
Increase (decrease) in income taxes payable	(1,272,969)	713,595	459,438
Net cash provided by operating activities	162,302	11,221,592	14,012,397
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,276,790)	(2,226,103)	(3,351,927)
Maturities of debt securities	214,973	1,008,607	2,039,656
Purchases of debt securities		(5,825,747)	
Sales of U.S. Treasury bill investments			5,249,314
Increase (decrease) in other assets	309,833	219,507	(617,433)
Cash receipts from sale of assets of discontinued operations	400,000	400,000	492,377
Payment for purchase of subsidiaries, net of cash acquired		(3,955,898)	(8,397,852)
Net cash used in investing activities	(1,351,984)	(10,379,634)	(4,585,865)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes payable and long-term debt	(38,518)	(1,131,484)	
Proceeds from notes payable	96,921	1,096,921	8,900,364
Collection of stock option note receivable	288,225		
Dividends paid	(3,490,761)	(3,479,613)	(3,465,761)
Proceeds from issuance of stock	3,655,918	542,668	804,005
Purchase of stock	(2,746,281)	(3,379,821)	(13,265,250)
Net cash used in financing activities	(2,234,496)	(6,351,329)	(7,026,642)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(92,103)	(58,337)	63,158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,516,281)	(5,567,708)	2,463,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,837,655	20,405,363	17,942,315
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,321,374	$ 14,837,655	$

	============	============	============
			20,405,363
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	$ 2,885,278	$ 1,850,564	$ 2,152,133
Interest paid	682,679	714,871	10,727

See notes to consolidated financial statements.
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2000, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business: The Company is principally engaged in the manufacture and sale of modular connecting and wiring devices for voice and data communications. The Company sells these products to telephone companies, electrical contractors, interconnect companies, original equipment manufacturers and retailers. The Company also owns subsidiaries which manufacture media and rate conversion products (products that permit telecommunications networks to move information between copper wired equipment and fiber-optic cable) and offer internet network design, specification and training services to educational institutions. The Company's operations are located in the United States, United Kingdom, Puerto Rico, and Costa Rica.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and accounts have been eliminated.

Use of estimates: The presentation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's estimates consist principally of reserves for doubtful accounts and lower of cost or market inventory adjustments.

Financial instruments: The fair value of the Company's financial instruments, which consist of marketable securities, accounts receivable, notes receivable, mortgage-backed securities, accounts payable and notes payable, approximate their carrying value due to their short-term nature and the variable interest rate on outstanding indebtedness.

Cash equivalents: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Accounts receivable from Hector Communications Corporation: The Company provides services for Hector Communications Corporation ("HCC"), a former subsidiary of the Company. Several of the Company's officers and directors work in similar capacities for HCC. Outstanding receivable balances from HCC were $172,000 and $428,000 at December 31, 2000 and 1999, respectively. Accounts with HCC are handled on an open account basis.

Property, plant and equipment: Property, plant and equipment are recorded at cost. Depreciation is computed using principally the straight-line method. Depreciation included in costs and expenses was $2,969,253, $2,827,709 and $2,444,192 for 2000, 1999 and 1998, respectively. Maintenance and repairs are charged to operations and additions or improvements are capitalized. Items of property sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses on disposal are reflected in operations.

Excess of cost over net assets acquired: The excess of cost over net assets of subsidiaries acquired in purchase transactions is being amortized on the straight-line method over periods of 5 to 15 years. Amortization included in costs and expenses was $2,128,870, $1,973,581 and $641,341 in 2000, 1999 and 1998, respectively.

Note receivable: The note receivable represents the balance due from the sale of the Company's contract manufacturing operations sold in 1996. The note bears interest at the prime rate and is secured by the assets sold. The original amount was $4,866,000 and the maturity date is November 1, 2001.

Recoverability of long-lived assets: The Company reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. Should the sum of the expected future net cash flows be less than the carrying value, the Company would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset based on market value that is based on the discounted cash flows expected to be generated by the asset. At December 31, 2000 and 1999, no impairment loss provision is required or recorded in the consolidated financial statements.

Investment in debt securities: The Company's Puerto Rico subsidiary owns a portfolio of AAA rated mortgage-backed securities it is holding to maturity. At December 31, 2000, the amortized cost basis of the securities was $248,000, which approximates market value. The subsidiary also holds an investment in Federal Home Loan Bank bonds, which are available for sale. Market value of the securities was $5,620,000 including a gross unrealized holding loss of $5,200 ($3,400 net of taxes), which is reflected in the consolidated financial statements in other comprehensive income (loss).

Notes payable: The Company has a $10,000,000 line of credit from U.S. Bank. Outstanding borrowings against the line of credit at December 31, 2000 and 1999 were $9,000,000 and $8,903,000 respectively. Interest on borrowings on the credit line is at the bank's average CD rate plus 1.5% (8.20% at December 31, 2000). The credit line matures June 30, 2001.

Foreign currency translation: Assets and liabilities denominated in foreign currencies were translated into U.S. dollars at year-end exchange rates. Revenue and expense transactions were translated using average exchange rates. The cumulative foreign currency translation balance is $347,000 and $35,000 at December 31, 2000 and 1999, respectively.

Revenue recognition: The Company recognizes revenue for all domestic and international sales at the shipping point. Shipping terms are FOB shipping point. The Company sells products directly to its customers, as well as through distributors. In all cases, risk of loss transfers at the point of shipment and the Company has no further obligation for performance after such time. Payment terms for distributors are consistent with the terms of the Company's direct customers.

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 115,187 shares, 82,923 shares, and 44,261 shares in 2000, 1999 and 1998, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

New accounting principles: On January 1, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that they have no free-standing or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not use free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which among other guidance, clarified the Staff's views on various revenue recognition and reporting matters. The Company adopted the provisions of SAB 101 in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material impact to the results of operations for the year ended December 31, 2000.

During the year ended December 31, 2000, the Company adopted the provisions of Emerging Issues Task Force (EITF) 00-10, Accounting for Shipping and Handling Fees and Costs. EITF 00-10 specifies classification guidelines for shipping and handling fees and costs incurred by sellers. Upon application of EITF 00-10, prior period amounts related to shipping and handling fees and costs were reclassified, which had no effect on previously reported net income.

Basis of presentation: Certain amounts in the 1999 and 1998 financial statements have been reclassified to conform to the 2000 financial statement presentation.

These reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2 - INVENTORIES

Inventories are carried at the lower of cost (first-in, first out method) or market and consist of:

	December 31	
	2000	1999
Finished goods	$ 10,876,529	$ 7,418,810
Raw and processed materials	16,603,310	13,750,132
	$ 27,479,839	$ 21,168,942

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and the estimated useful lives are as follows:

	Estimated useful life	December 31 2000	1999
Land		$ 293,299	$ 305,519
Buildings	7-30 years	3,077,470	3,105,474
Machinery and equipment	3-15 years	26,746,398	25,690,309
Furniture and fixtures	5-10 years	3,349,101	3,045,826
		33,466,268	32,147,128
Less accumulated depreciation		23,360,224	21,187,460
		$ 10,106,044	$ 10,959,668

NOTE 4 - EMPLOYEE BENEFIT PLANS

The Company has an Employee Savings Plan (401(k)) and matches a percentage of employee contributions up to six percent of compensation. Contributions to the plan in 2000, 1999 and 1998 were $347,000, $275,000, and $93,000 respectively.

The Company does not provide post retirement benefits to its employees.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company leases land, buildings and equipment under operating leases with original terms from one to ten years. Certain of these leases contain renewal and purchase options. Rent expense charged to operations was $901,000, $885,000 and $590,000 in 2000, 1999 and 1998 respectively. At December 31, 2000, the Company was obligated under noncancellable operating leases to make minimum annual future lease payments as follows:

Year Ending December 31:	
2001	$ 589,077
2002	513,330
2003	408,136
2004	236,482
2005	255,125
	$ 2,002,150

In the ordinary course of business, the Company is exposed to legal actions and incurs costs to pursue and defend legal claims. Company management is not aware of any outstanding or pending legal actions that would materially affect the Company's financial position or results of operations.

NOTE 6 - COMMON STOCK AND STOCK OPTIONS

Common shares are reserved in connection with the Company's 1992 stock plan under which 1,900,000 shares of common stock may be issued pursuant to stock options, stock appreciation rights, restricted stock or deferred stock granted to officers and key employees. Exercise prices of stock options under the plan cannot be less than fair market value of the stock on the date of grant. Rules and conditions governing awards of stock options, stock appreciation rights and restricted or deferred stock are determined by the Compensation Committee of the Board of Directors, subject to certain limitations incorporated into the plan. At December 31, 2000, 253,983 shares remained available to be issued under the plan. Options expire five years from date of grant with one third of the options vesting after six months, the remaining two thirds vesting equally over the next two years.

Common shares are also reserved for issuance in connection with a nonqualified stock option plan under which up to 200,000 shares may be issued to nonemployee directors. The plan provides for the automatic grant of nonqualified options for 3,000 shares of common stock annually to each nonemployee director concurrent with the annual stockholders' meeting. Exercise price will be the fair market value of the stock at the date of grant. Options granted under this plan vest when issued and expire ten years from date of grant. At December 31, 2000, 17,000 shares are available to be issued under the plan.

The Company issued 8,000 common shares of stock to JDL Technologies employees as compensation for services during 2000 and 1999. Compensation expense recorded was $120,000 in 2000 and $92,000 in 1999.

The Company awarded 240,000 incentive stock options to employees of Transition Networks, Inc. in March 1999. For 1999 these options were based on the attainment of TNI's annual revenue and operating income targets. On the measurement date of December 31, 1999, 44,736 incentive stock options were vested in the accounts of eligible employees. The Company recorded compensation expense of $125,798 in 1999 in connection with these options. Compensation expense was based on the difference between the exercise price and the price at the measurement date. During the years 2000 to 2004, the balance of the options vest at the rate of 20% per year.

Changes in outstanding employee and director stock options during the three years ended December 31, 2000 were as follows:

	Number of shares	Weighted average exercise price per share
Outstanding at December 31, 1997	525,272	$ 13.19
Granted	224,550	17.46
Exercised	(84,834)	11.11
Canceled	(5,800)	15.07
Outstanding at December 31, 1998	659,188	14.89
Granted	622,204	10.27
Exercised	(24,783)	10.52
Canceled	(99,617)	12.98
Outstanding at December 31, 1999	1,156,992	12.66
Granted	363,100	16.79
Exercised	(290,159)	12.98
Canceled	(146,537)	11.81
Outstanding at December 31, 2000	1,083,396	14.17

At December 31, 2000, 957,248 stock options are currently exercisable. The following table summarizes the status of Communications Systems, Inc. stock options outstanding at December 31, 2000:

Range of Exercise Prices	Shares	Weighted Average Remaining Option Life	Weighted Average Exercise Price
$ 5.31 to $ 9.99	28,167	2.0 years	$ 7.86
$10.00 to $12.00	356,379	4.0 years	10.21
$12.01 to $14.99	187,500	3.2 years	13.97
$15.00 to $18.91	511,350	3.7 years	17.08

In 1998, the Company provided financing to employees and directors who exercised stock options during the year. The notes bear interest at 6% and were paid February 28, 2000. The notes were reflected as a reduction of stockholders' equity in the financial statements.

On October 29, 1999 the Board of Directors adopted a shareholders' rights plan. Under this plan, the Board of Directors declared a distribution of one right per share of common stock. Each right entitles the holder to purchase 1/100th of a share of a new series of Junior Participating Preferred Stock of the Company at an initial exercise price of $65. The rights expire on October 26, 2009. The rights will become exercisable only following the acquisition by a person or group, without the prior consent of the Board of Directors, of 15% or more of the Company's voting stock, or following the announcement of a tender offer or exchange offer to acquire an interest of 15% or more. If the rights become exercisable, each rightholder will be entitled to purchase, at the exercise price, common stock with a market value equal to twice the exercise price. Should the Company be acquired, each right would entitle the holder to purchase, at the exercise price, common stock of the acquiring company with a market value equal to twice the exercise price. Any rights owned by the acquiring person or group would become void.

PRO FORMA FINANCIAL INFORMATION

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" for measurement and recognition of stock-based transactions with its employees. If the Company had elected to recognize compensation cost for its stock based transactions using the method prescribed by SFAS No. 123, pro forma net income and net income per share would have been as follows:

	Year Ended December 31		
	2000	1999	1998
Net Income	$ 5,323,456	$ 8,035,603	$ 7,061,627
Basic Net Income Per Share	$ .61	$ .93	$ .78
Diluted Net Income Per Share	$ .60	$ .92	$ .78

The fair value of the Company's stock options and Employee Stock Purchase Plan transactions used to compute pro forma net income and net income per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model. The following table displays the assumptions used in the model.

	Year Ended December 31		
	2000	1999	1998
Expected volatility	34%	27%	26%
Risk free interest rate	6.1%	5.2%	5.7%
Expected holding period - employees	4 years	4 years	4 years
Expected holding period - directors	7 years	7 years	7 years
Dividend yield	2.4%	3.9%	2.4%

Pro forma stock-based compensation cost was $1,349,000, $978,000 and $806,000 in 2000, 1999 and 1998, respectively. The fair value of all options issued in 2000, 1999 and 1998 was $1,860,000, $1,402,000 and $971,000, respectively.

EMPLOYEE STOCK PURCHASE PLAN

The Company maintains an Employee Stock Purchase Plan for which 300,000 common shares have been reserved. Under the terms of the plan, employees may acquire shares of common stock, subject to limitations, through payroll deductions at 85% of the lower of fair market value for such shares on one of two specified dates in each plan year. Shares issued to employees under the plan were 30,515, 27,431 and 12,210 for the plan years ended August 31, 2000, 1999 and 1998, respectively. At December 31, 2000 employees had subscribed to purchase an additional 25,500 shares in the current plan year ending August 31, 2001.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

All eligible employees of the Company participate in the ESOP after completing one year of service. Contributions are allocated to each participant based on compensation and vest 30% after three years of service and incrementally thereafter, with full vesting after seven years. At December 31, 2000, the ESOP held 332,864 shares of the Company's common stock, all of which has been allocated to the accounts of eligible employees. Contributions to the plan are determined by the Board of Directors and can be made in cash or shares of the Company's stock. The Company's 1998 ESOP contribution was $235,000 for which the Company issued 19,893 shares of common stock to the ESOP in February 1999. The 1999 ESOP contribution was $308,000 for which the Company issued 23,692 shares in February 2000. The 2000 ESOP contribution was $220,325 for which the Company issued 25,000 shares in February 2001.

PURCHASES OF COMMUNICATIONS SYSTEMS, INC. COMMON STOCK

The Company's Board of Directors has authorized the purchase and retirement, from time to time, of shares of the Company's stock on the open market, or in private transactions consistent with overall market and financial conditions. In 2000, the Company purchased and retired 286,729 shares at a cost of $2,746,000. In 1999, the Company purchased and retired 320,136 shares at a cost of $3,380,000. At December 31, 2000, 123,377 shares could be repurchased under outstanding Board authorizations.

NOTE 7 - INCOME TAXES

Income tax expense from continuing operations consists of the following:

	Year Ended December 31		
	2000	1999	1998
Currently payable income taxes:			
Federal	$ 1,109,000	$ 2,058,000	$ 1,607,000
State	131,000	217,000	110,000
Puerto Rico	573,000	844,000	767,000
Foreign	57,000	305,000	131,000
	1,870,000	3,424,000	2,615,000
Tax effect of disqualified employee incentive stock options	397,000	14,000	37,000
Deferred income taxes (benefit)	(667,000)	(818,000)	(702,000)
	$ 1,600,000	$ 2,620,000	$ 1,950,000

A subsidiary, Suttle Caribe, Inc., operates in Puerto Rico, and is qualified under Internal Revenue Service Code section 936 for credit against U.S. income taxes. Under provisions of the Omnibus Budget Reconciliation Act of 1993, Congress set limits on the section 936 credit that went into effect for the 1994-tax year. As a result of the tax credit limitation, the Company incurred $82,000, $827,000 and $556,000 of U.S. federal income tax expense on earnings in Puerto Rico for 2000, 1999 and 1998, respectively.

Earnings of Suttle Caribe, Inc. are 90% exempt from Puerto Rico income taxes through 2003, subject to satisfaction of the employment and investment requirements of the tax exemption grant received by the Company. Distributions by Suttle Caribe, Inc. to the parent company are subject to a tollgate tax at rates which, depending on various factors, range from 3.5% to 10%. The Company has provided for and prepaid tollgate taxes at a 1.75% rate on its Puerto Rico earnings for each year since 1993. The Company has recognized tollgate tax expense at the 3.5% rate on earnings from years prior to 1993 only to the extent distributions were received from Suttle Caribe, Inc. The cumulative amount of undistributed prior earnings on which no tollgate tax has been recognized was approximately $10,004,000 at December 31, 2000.

Austin Taylor Communications, Ltd. operates in the U.K. and is subject to U.K. rather than U.S. income taxes. U.K. pretax income (loss) was ($74,000), $878,000, and $915,000 in 2000, 1999 and 1998, respectively. Suttle Costa Rica, S.A. operates in Costa Rica and is currently exempt from Costa Rica income taxes. Accumulated earnings in Costa Rica on which no U.S. income tax has been accrued was $2,268,000 at December 31, 2000. It is the Company's intention to reinvest the remaining undistributed earnings of its Puerto Rico, U.K. and Costa Rica subsidiaries to support the continued operation of those subsidiaries.

The provision for income taxes varied from the federal statutory tax rate as follows:

	Year Ended December 31		
	2000	1999	1998
Tax at U.S. statutory rate	35.0%	35.0%	35.0%
Surtax exemption	(1.0)	(.9)	(1.0)
U.S. taxes not provided on Puerto Rico operations	(23.1)	(17.4)	(19.8)
State income taxes, net of federal benefit	1.8	1.8	.7
Other	6.6	4.0	5.0
Effective tax rate	19.3%	22.5%	19.9%

Deferred tax assets and liabilities as of December 31 related to the following:

	2000	1999
Current assets:		
Bad debts	$ 253,000	$ 258,000
Inventory	934,000	938,000
Accrued expenses	647,745	539,000
	$ 1,834,745	$ 1,735,000

Long term assets and (liabilities):		
Depreciation	$ (333,189)	$ (393,429)
Net operating loss carryforward	1,032,000	1,110,000
Loss reserves on notes receivable	148,000	151,000
Excess of cost over net assets	382,000	203,000
Other	(3,000)	26,000
Alternative minimum tax credits	1,510,000	1,072,000
	$ 2,735,811	$ 2,168,571

As part of the LANart acquisition, the Company purchased net operating loss carryforwards in the amount of $3,416,000. At December 31, 2000, the Company has $3,036,000 available net operating loss carryforwards for income tax purposes, which expire 2014. The Company also has alternative minimum tax carryforwards of approximately $1,510,000 at December 31, 2000, which are available to reduce future regular income taxes over an indefinite period.

NOTE 8 - ACQUISITIONS

Effective December 1, 1998, the Company acquired all the capital stock of Transition Networks, Inc. for $8,507,000 (cash payments net of cash acquired). The transaction is being accounted for as a purchase, and the operations of Transition Networks, Inc. are included in consolidated operations as of the effective date. Excess of cost over net assets acquired in the transaction was $4,047,000, which is being amortized on a straight-line basis over 5 years. In the acquisition, the following assets were acquired and liabilities assumed:

Property, plant and equipment	$ 708,804
Excess of cost over net assets acquired	4,046,565
Accounts receivable	3,262,689
Inventory	3,198,942
Cash	550,049
Accounts payable	(1,973,236)
Accrued expenses	(643,263)
Other assets and liabilities	(93,786)
Total purchase price	9,056,764
Less cash acquired	(550,049)
Payment for purchase of Transition Networks, Inc., net of cash acquired	$ 8,506,715

Effective August 7, 1998, the Company purchased all the capital stock of JDL Technologies, Inc. for $2,244,000, consisting of 158,005 shares of the Company's common stock and $32,000 of acquisition costs. The acquisition was accounted for as purchase. Excess of cost over net assets acquired in the transaction was $2,223,000, which is being amortized on a straight-line basis over five years. The results of operations of JDL are included in consolidated operations as of the acquisition date. In the acquisition, the following assets were acquired and liabilities assumed:

Property, plant and equipment	$ 77,799
Excess of cost over net assets acquired	2,222,772
Accounts receivable	1,430,953
Inventory	264,608
Accounts payable	(949,999)
Accrued expenses	(800,803)
Other assets and liabilities	(1,000)
Payment for purchase of JDL Technologies, Inc.	$ 32,260

Unaudited consolidated results of operations on a pro forma basis as though the acquisitions of JDL Technologies and Transition Networks, Inc. were effective January 1, 1998 are as follows:

	Year Ended December 31, 1998
Revenues from continuing operations	$97,440,835
Net income	$ 6,473,170
Basic net income per share	$ .71
Diluted net income per share	$ .71

Effective April 7, 1999, the Company purchased all the capital stock of LANart Corporation a designer and manufacturer of application specific integrated circuits (ASIC chips) located in Needham, Massachusetts, for $3,956,000, net of cash acquired. The operations of LANart Corporation, which were not material to the Company's financial statements, have been included in consolidated operations as of the purchase date. The fair value of assets acquired in the transaction was $4,764,000 (including excess of cost over net assets acquired of

$2,361,000) and liabilities of $2,805,000 were assumed as follows:

Property, plant and equipment	$ 242,192
Excess of cost over net assets acquired	2,361,179
Accounts receivable	1,801,359
Inventory	1,075,871
Deferred tax benefits	1,161,408
Cash	808,265
Accounts payable	(1,285,761)
Accrued expenses	(1,519,296)
Other assets and liabilities	118,946
Total purchase price	4,764,163
Less cash acquired	(808,265)
Payment for purchase of LANart, Inc., net of cash acquired	$ 3,955,898

NOTE 9 - INFORMATION CONCERNING INDUSTRY SEGMENTS AND MAJOR CUSTOMERS

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 other operations; JDL Technologies, Inc. (JDL) that provides telecommunications network design, specification and training services to educational institutions.

Suttle products are sold principally to United States (U.S.) customers. Suttle operates manufacturing facilities in the U.S. (including Puerto Rico) and Costa Rica. Austin Taylor operates in the United Kingdom (U.K.). Transition Networks manufactures its products in the United States and makes sales in both the U.S. and U.K. markets. JDL Technologies operates in the U.S. and makes sales in the U.S. and Latin America. Export sales were less than 10% of consolidated revenues in each of the last three years. At December 31, 2000, foreign earnings in excess of amounts received in the United States were approximately $6,106,000.

In 2000 and 1999, no customer accounted for more than 10% of consolidated sales. In 1998, sales to three U.S. customers amounted to 13.6%, 10.4% and 10.3% of consolidated revenues, respectively.

The Company's station apparatus products are manufactured using plastic parts, wire sub-assemblies, fasteners, brackets, electronic circuit boards and other components, most of which are fabricated by the Company. There are multiple sources of supply for the materials and parts required and the Company is not dependent upon any single supplier, except that the Company's corrosion resistant products utilize a moisture-resistant gel-filled fig available only from Raychem Corporation. The unavailability of the gel-filled figs from Raychem Corporation could have a material adverse effect on the Company. The Company has not generally experienced significant problems in obtaining its required supplies, although from time to time spot shortages are experienced.
<TABLE>
<CAPTION>

	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Year Ended December 31, 2000:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 55,111,481	$ 10,148,260	$ 39,573,541	$ 14,886,833	$ -	$119,720,115
Cost of sales	37,692,631	8,870,492	24,460,842	11,330,419		82,354,384
Gross profit	17,418,850	1,277,768	15,112,699	3,556,414		37,365,731
Selling, general and administrative expenses	7,539,489	1,383,796	13,126,188	3,833,823	3,549,077	29,432,373
Goodwill amortization	287,047	58,338	1,281,549	444,554	(2,071,488)	0
Operating income (loss)	$ 9,592,314	$ (164,366)	$ 704,962	$ (721,963)	$ (1,477,589	$ 7,933,358

Depreciation and amortization	$ 2,085,318	$ 676,609	$ 1,631,879	$ 558,607	$ 145,710	$ 5,098,123
Assets	$ 47,739,407	$ 6,503,926	$ 20,925,554	$ 9,691,659	$ 8,337,508	$ 93,198,054
Capital expenditures	$ 1,478,871	$ 233,405	$ 223,434	$ 306,107	$ 34,973	$ 2,276,790
Year Ended December 31, 1999:						
Revenues	$ 58,670,315	$ 12,031,318	$ 35,682,403	$ 11,140,581	$ -	$117,524,617
Cost of sales	37,811,488	10,010,373	21,464,186	7,993,694		77,279,741
Gross profit	20,858,827	2,020,945	14,218,217	3,146,887		40,244,876
Selling, general and administrative expenses	7,755,117	1,178,784	13,267,495	2,985,772	3,720,120	28,907,288
Goodwill amortization	287,047	58,338	1,124,137	444,555	(1,914,077)	0
Operating income (loss)	$ 12,816,663	$ 783,823	$ (173,415)	$ (283,440)	$ (1,806,043)	$ 11,337,588
Depreciation and amortization	$ i2,068,839	$ 709,992	$ 1,367,536	$ 494,023	$ 160,900	$ 4,801,290
Assets	$ 51,004,622	$ 7,751,465	$ 17,511,819	$ 6,639,227	$ 8,568,920	$ 91,476,053
Capital expenditures	$ 1,345,535	$ 675,074	$ 48,293	$ 95,890	$ 61,311	$ 2,226,103
Year Ended December 31, 1998:						
Revenues	$ 55,927,503	$ 11,729,725	$ 2,232,058	$ 1,680,744	$ -	$ 71,570,030
Cost of sales	37,751,518	9,894,546	1,724,985	1,228,424		50,599,473
Gross profit	18,175,985	1,835,179	507,073	452,320		20,970,557
Selling, general and administrative expenses	7,574,373	1,155,649	773,917	942,438	1,965,984	12,412,361
Goodwill amortization	287,047	58,338	67,443	185,231	(598,059)	0
Operating income (loss)	$ 10,314,565	$ 621,192	$ (334,287)	$ (675,349)	$ (1,367,925)	$ 8,558,196
Depreciation and amortization	$ 1,957,261	$ 692,453	$ 96,756	$ 12,134	$ 326,929	$ 3,085,533
Assets	$ 53,130,454	$ 7,091,218	$ 11,731,323	$ 3,634,012	$ 8,312,705	$ 83,899,712

Capital expenditures	$ 2,269,177	$ 935,603	$ 15,294	$ 22,427	$ 109,426	$ 3,351,927

</TABLE>

(b) SUPPLEMENTAL FINANCIAL INFORMATION

Unaudited Quarterly Operating Results
(in thousands except per share amounts)

	Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
2000				
Revenues	$ 30,864	$ 32,074	$ 29,654	$ 27,128
Gross Margins	10,473	9,452	9,039	8,401
Operating income	2,883	1,730	1,852	1,468
Net Income	2,314	1,587	1,508	1,264
Basic Net Income per Share	$ .27	$ .18	$ .17	$ .14
Diluted Net Income per Share	$ .26	$ .18	$ .17	$ .14
1999				
Revenues	$ 26,733	$ 29,957	$ 29,426	$ 31,409
Gross Margins	9,036	9,901	10,135	11,173
Operating income	3,262	2,078	2,592	3,406
Net Income	2,473	1,748	2,101	2,692
Basic Net Income per Share	$ .29	$ .20	$ .24	$ .31
Diluted Net Income per Share	$ .28	$ .20	$ .24	$ .31

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by paragraphs [a], [c], [d], [e], and [f] of Item 401 under Regulation S-K, to the extent applicable, will be set forth under the caption "Election of Directors" in the Company's definitive proxy material for its May 17, 2001 Annual Meeting of Shareholders to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated by reference herein. The information called for by paragraph [b] of Item 401 is set forth under Item 1[c] herein. The information called for by Item 405 under Regulation S-K, to the extent applicable, will be set forth under the caption "Certain Transactions" in the Company's above referenced definitive proxy material.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 402 under Regulation S-K to the extent applicable, will be set forth under the caption "Executive Compensation" in the Company's definitive proxy materials for its May 17, 2001 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 403 under Regulation S-K will be set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Election of Directors" in the Company's definitive proxy materials for its May 17, 2001 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 404 under Regulation S-K will be set forth under the caption "Certain Transactions" in the Company's definitive proxy materials for its May 17, 2001 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Consolidated Financial Statements

The following Consolidated Financial Statements of Communications Systems, Inc. and subsidiaries appear at pages 16 to 30 herein:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

(a) (2) Consolidated Financial Statement Schedule	Page Herein

The following financial statement schedule is being filed as part of this Form 10-K Report:

Independent Auditors' Report	15
Schedule II - Valuation and Qualifying Accounts and Reserves	34

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(a) (3) Exhibits

The exhibits which accompany or are incorporated by reference in this report, including all exhibits required to be filed with this report, are described on the Exhibit Index, which begins on page 37 of the sequential numbering system used in this report.

(b) REPORTS ON FORM 8-K FILED DURING THE THREE MONTHS ENDED DECEMBER 31, 2000

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNICATIONS SYSTEMS, INC.

Dated: March 29, 2001 /s/ Curtis A.Sampson

Curtis A. Sampson, Chairman of the
Board of Directors, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

Each person whose signature appears below constitutes and appoints CURTIS A. SAMPSON and PAUL N. HANSON as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	Title	Date
/s/Curtis A.Sampson Curtis A. Sampson	Chairman of the Board of Directors, President, and Director (Principal Executive Officer)	March 29, 2001
/s/Paul N. Hanson Paul N. Hanson	Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 29, 2001
/s/Randall D. Sampson Randall D. Sampson	Director	March 29, 2001
/s/Edwin C. Freeman Edwin C. Freeman	Director	March 29, 2001
/s/Luella G. Goldberg Luella Gross Goldberg	Director	March 29, 2001
/s/Frederick M. Green Frederick M. Green	Director	March 29, 2001
/s/Joseph W. Parris Joseph W. Parris	Director	March 29, 2001
/s/Gerald D. Pint Gerald D. Pint	Director	March 29, 2001
/s/Wayne E. Sampson Wayne E. Sampson	Director	March 29, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 2000

FINANCIAL STATEMENT SCHEDULE

<TABLE>
<CAPTION>

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Schedule II - Valuation and Qualifying Accounts and Reserves

Description	Balance at Beginning of Period	Additions Charged t and Expenses	Deductions from Reserves	Balance at End of Period
Allowance for doubtful accounts:				
Year ended:				
<S>	<C>	<C>	<C>	<C>
December 31, 2000	$ 908,000	$ 36,000	$ 31,000 (A)	$ 913,000
December 31, 1999	$ 884,000	$ 126,000	$ 102,000 (A)	$ 908,000
December 31, 1998	$ 796,000	$ 94,000	$ 6,000 (A)	$ 884,000
Reserve for assets transferred under contractual arrangements and notes receivable:				
Year Ended:				
December 31, 2000	$ 434,000	$ -	$ -	$ 434,000
December 31, 1999	$ 371,000	$ 63,000	$ -	$ 434,000
December 31, 1998	$ 371,000	$ -	$ -	$ 371,000

(A) Accounts determined to be uncollectible and charged off against reserve.
</TABLE>

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 2000

EXHIBITS

COMMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Exhibit Index To
Form 10-K for the Year Ended December 31, 2000

Regulation S-K Exhibit Table Reference	Title of Document	Location in Consecutive Numbering System as Filed With the Securities and Exchange Commission
3.1	Articles of Incorporation, as amended	Filed as Exhibit 3.1 to the Form 10-K of the Company for its year ended December 31, 1989 (the "1989 Form 10-K") and incorporated herein by reference.
3.2	Bylaws, as amended	Filed as Exhibit 3.2 to the 1989 Form 10-K and incorporated herein by reference.
10.1	1987 Stock Plan	Filed as Exhibit 10.1 to the Form 10-K Report of the Company for its year ended December 31, 1993 (the "1993 Form 10-K") and incorporated herein by reference.
10.2	Employee Savings Plan	Filed as Exhibit 10.2 to the 1993 Form 10-K and incorporated herein by reference.
10.3	Employee Stock Ownership Plan	Filed as Exhibit 10.3 to the 1993 Form 10-K and incorporated herein by reference.
10.4		Employee Stock Purchase Plan Filed as Exhibit 10.4 to the 1993 Form 10-K and incorporated herein by reference.
10.5	Stock Option Plan for Nonemployee Directors	Filed as Exhibit 10.5 to the 1993 Form 10-K and incorporated herein by reference.
10.6	1992 Stock Plan	Filed as Exhibit 10.6 to the 1993 Form 10-K and incorporated herein by reference.
10.7	Flexible Benefit Plan	Filed as Exhibit 10.7 to the 1993 Form 10-K and incorporated herein by reference.
10.8	Supplemental Executive Retirement Plan	Filed as Exhibit 10.8 to the 1993 Form 10-K and incorporated herein by reference.
10.9	Form of Rights Agreement, dated as of October 26, 1999 between the Company and	Filed as Exhibit 1 to the Company's Form 8-A on November 8, 1999 and incorporated herein by

	Norwest Bank Minnesota, National Association	reference.
21	Subsidiaries of the Registrant	Filed herewith at page 37.
23	Independent Auditors' Consent	Filed herewith at page 38.
24	Power of Attorney	Included in signatures at page 32.

The exhibits referred to in this Exhibit Index will be supplied to a shareholder at a charge of $.25 per page upon written request directed to CSI's Assistant Secretary at the executive offices of the Company.

SUBSIDIARIES OF COMMUNICATIONS SYSTEMS, INC.
EXHIBIT 21

Subsidiaries	Jurisdiction of Incorporation
Suttle Apparatus Corporation	Illinois
Suttle Costa Rica, S.A.	Costa Rica
Tel Products, Inc.	Minnesota
Suttle Caribe, Inc.	Minnesota
Austin Taylor Communications, Ltd.	United Kingdom
Automatic Tool & Connector Company, Inc.	New Jersey
JDL Technologies, Inc.	Minnesota
Transition Networks, Inc.	Minnesota
LANart Corporation	Massachusetts

All such subsidiaries are 100%-owned directly by Communications Systems, Inc. The financial statements of all such subsidiaries are included in the consolidated financial statements of Communications Systems, Inc.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-28486, 33-39862, 33-39864, 33-60930, 33-83662, 33-99564, 33-99566 and 333-92063 of Communications Systems, Inc. of our report dated March 2, 2001 on the consolidated financial statements and schedule of Communications Systems, Inc. and subsidiaries appearing in this Annual Report on Form 10-K of Communications Systems, Inc. for the year ended December 31, 2000.

/s/ Deloitte & Touche LLP
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Deloitte & Touche LLP
March 29, 2001
Minneapolis, Minnesota