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

FORM 10-Q

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

For the quarterly period ended JUNE 30, 2001

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-10355

COMMUNICATIONS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

MINNESOTA	41-0957999
(State or other jurisdiction of incorporation or organization)	(Federal Employer Identification No.)
213 South Main Street, Hector, MN	55342
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at July 31, 2001
Common Stock, par value $.05 per share	8,371,797

Total Pages (14) Exhibit Index at (NO EXHIBITS)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30 2001	December 31 2000
Assets:		
Current assets:		
<S>	<C>	<C>
Cash	$ 19,673,586	$ 11,321,374
Receivables, net	18,463,672	23,189,409
Inventories (Note 4)	27,530,830	27,479,839
Note Receivable	2,765,390	2,965,390
Deferred income taxes	1,834,745	1,834,745
Other current assets	415,922	626,139
Total current assets	70,684,145	67,416,896
Property, plant and equipment	34,102,839	33,466,268
less accumulated depreciation	(24,925,781)	(23,360,224)
Net property, plant and equipment	9,177,058	10,106,044
Other assets:		
Excess of cost over net assets acquired	5,683,532	6,728,995
Investments in mortgage backed and other securities	134,807	5,916,507
Deferred income taxes	2,735,504	2,735,811
Other assets	309,974	293,801
Total other assets	8,863,817	15,675,114
Total Assets	$ 88,725,020	$ 93,198,054
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 9,080,556	$ 9,101,438
Accounts payable	5,583,732	5,866,627
Accrued expenses	4,072,009	4,579,202
Dividends payable	838,900	880,391
Income taxes payable	1,365,009	1,503,468
Total current liabilities	20,940,206	21,931,126
Stockholders' Equity	67,784,814	71,266,928
Total Liabilities and Stockholders' Equity	$ 88,725,020	$ 93,198,054

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

	Three Months Ended June 30	Six Months Ended June 30

	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Sales	$ 25,681,533	$ 32,073,844	$ 48,775,810	$ 62,938,036
Costs and expenses:				
Cost of sales	18,733,338	22,621,495	35,185,584	43,012,384
Selling, general and administrative expenses	6,569,156	7,720,758	13,008,979	15,311,849
Total costs and expenses	25,302,494	30,342,253	48,194,563	58,324,233
Operating income	379,039	1,731,591	581,247	4,613,803
Other income and (expenses):				
Investment income	226,365	255,553	469,503	513,699
Interest expense	(160,170)	(133,825)	(340,788)	(276,371)
Other income, net	66,195	121,728	128,715	237,328
Income before income taxes	445,234	1,853,319	709,962	4,851,131
Income taxes (Note 5)	130,000	265,000	210,000	950,000
Net income	315,234	1,588,319	499,962	3,901,131
Other comprehensive income (loss):				
Unrealized holding gain (loss) on debt securities	(22,838)	17,607	5,288	(7,031)
Foreign currency translation adjustment	(5,386)	(234,921)	(185,437)	(266,139)
Other comprehensive loss before income taxes	(28,224)	(217,314)	(180,149)	(273,170)
Income tax expense (benefit) related to unrealized loss on debt securities	(7,916)	6,103	1,798	(2,437)
	(20,308)	(223,417)	(181,947)	(270,733)
Comprehensive income	$ 294,926	$ 1,364,902	$ 318,015	$ 3,630,398
Basic net income per share	$ .04	$ .18	$ .06	$ .45
Diluted net income per share	$ .04	$ .18	$ .06	$ .44
Average Basic Shares Outstanding	8,391,380	8,795,838	8,425,243	8,721,219
Average Dilutive Shares Outstanding	8,400,278	8,984,864	8,445,937	8,938,873

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in	Retained	Stock Option Notes	Cumulative Other Comprehensive	
	Shares	Amount	Capital	Earnings	Receivable	Income (Loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

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 common stock under Employee Stock Purchase Plan	30,515	1,526	316,211				317,737
Issuance of common 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 Note Receivable					288,225		288,225
Other comprehensive loss						(334,249)	(334,249)
BALANCE AT DECEMBER 31, 2000	8,616,909	$ 430,846	$ 28,877,135	$ 42,309,918	$ -	$ (350,971)	$ 71,266,928
Net income				499,962			499,962
Issuance of common stock to Employee Stock Ownership Plan	25,000	1,250	219,075				220,325
Purchase of stock	(253,866)	(12,646)	(840,248)	(1,491,408)			(2,344,302)
Shareholder dividends				(1,676,152)			(1,676,152)
Other comprehensive loss						(181,947)	(181,947)
BALANCE AT JUNE 30, 2001	8,388,043	$ 419,450	$ 28,255,962	$ 39,642,320	$ -	$ (532,918)	$ 67,784,814

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

	Six Months Ended June 30	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 499,962	$ 3,901,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,617,515	2,643,322
Changes in assets and liabilities :		
Accounts receivable	4,600,361	(3,397,437)
Inventories	(147,924)	(8,519,957)
Other current assets	210,409	186,926
Accounts payable	(191,829)	1,239,773
Accrued expenses	(285,250)	

		15,848
Income taxes payable	(137,162)	(1,537,079)
Net cash provided by (used in) operating activities	7,166,082	(5,467,473)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(712,192)	(1,360,548)
Maturities of mortgage-backed and other investment securities	5,747,354	126,880
Purchases of mortgaged-backed and other securities		
Other assets	18,661	258,700
Collection of notes receivable	200,000	200,000
Net cash provided by (used in) investing activities	5,253,823	(774,968)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(20,882)	(3,921,817)
Proceeds from issuance of notes payable		2,300,000
Dividends paid	(1,717,643)	(1,736,364)
Proceeds from issuance of stock		3,092,995
Purchase of stock	(2,344,302)	(1,145,931)
Collection of notes receivable		288,225
Net cash used in financing activities	(4,082,827)	(1,122,892)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	15,134	(24,709)
NET DECREASE IN CASH AND CASH EQUIVALENTS	8,352,212	(7,390,042)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,321,374	14,837,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,673,586	$ 7,447,613
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 347,969	$ 2,493,807
Interest paid	377,716	296,023

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of changes in stockholders' equity as of June 30, 2001, the statements of income and comprehensive income for the three and six month periods ended June 30, 2001 and 2000 and the statements of cash flows for the six-month periods ended June 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2001 and 2000 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2000 Annual Report to Shareholders. The results of operations for the periods ended June 30 are not necessarily indicative of the operating results for the entire year.

In February 2001, the Company issued 25,000 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 2000 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $220,325 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

NOTE 2 - NET INCOME PER SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

NOTE 3 - SEGMENT INFORMATION

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies (JDL) which provides telecommunications network design, specification and training services to educational institutions. Information concerning the Company's operations in the various segments for the six-month periods ended June 30, 2001 and 2000 is as follows:
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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Six Months Ended June 30, 2001:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 20,837,696	$ 5,797,026	$17,374,202	$ 4,766,886	$ 0	$ 48,775,810
Cost of sales	16,881,625	4,945,715	10,700,290	2,657,954	0	35,185,584
Gross profit	3,956,071	851,311	6,673,912	2,108,932	0	13,590,226
Selling, general and administrative expenses	3,557,103	781,326	5,017,559	1,625,513	2,027,478	13,008,979
Goodwill amortization	143,524	29,169	640,774	222,277	(1,035,744)	0
Operating income (loss)	$ 255,444	$ 40,816	$ 1,015,579	$ 261,142	$ (991,734)	$ 581,247
Depreciation and amortization	$ 1,148,273	$ 308,182	$ 819,424	$ 282,277	$ 59,359	$ 2,617,515
Capital expenditures	$ 397,255	$ 15,186	$ 46,787	$ 68,590	$ 184,374	$ 712,192

Assets	$ 47,131,700	$ 6,926,429	$20,175,355	$ 5,444,187	$ 9,047,349	$88,725,020
Six Months Ended June 30, 2000:						
Revenues	$ 30,519,056	$ 5,361,329	$18,506,929	$ 8,550,722	$ 0	$62,938,036
Cost of sales	20,636,608	4,427,226	11,318,249	6,630,301	0	43,012,384
Gross profit	9,882,448	934,103	7,188,680	1,920,421	0	19,925,652
Selling, general and administrative expenses	3,650,772	797,158	7,017,528	1,912,003	1,934,388	15,311,849
Goodwill amortization	143,524	29,169	640,774	222,277	(1,035,744)	0
Operating income (loss)	$ 6,088,152	$ 107,776	$ (469,622)	$ (213,859)	$ (898,644)	$ 4,613,803
Depreciation and amortization	$ 1,115,666	$ 376,694	$ 808,686	$ 252,276	$ 90,000	$ 2,643,322
Capital expenditures	$ 873,970	$ 103,263	$ 187,371	$ 165,311	$ 30,633	$ 1,360,548
Assets	$ 48,823,622	$ 6,620,358	$23,325,663	$ 6,479,343	$ 8,332,587	$93,581,573

</TABLE>

Information concerning the Company's operations in the various segments for the three-month periods ended June 30, 2001 and 2000 is as follows:

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<S>	Suttle <C>	Austin Taylor <C>	Transition Networks <C>	JDL Technologies <C>	Corporate <C>	Consolidated <C>
Three Months Ended June 30, 2001:						
Revenues	$ 10,827,616	$ 2,863,177	$ 9,358,479	$ 2,632,261	$ 0	$25,681,533
Cost of sales	9,115,156	2,389,287	5,674,565	1,554,330		18,733,338
Gross profit	1,712,460	473,890	3,683,914	1,077,931	0	6,948,195
Selling, general and administrative expenses	1,699,800	418,302	2,525,438	793,843	1,131,773	6,569,156
Goodwill amortization	66,905	14,584	320,387	111,139	(513,015)	0
Operating income (loss)	$ (54,245)	$ 41,004	$ 838,089	$ 172,949	$ (618,758)	$ 379,039
Depreciation and amortization	$ 573,126	$ 156,722	$ 409,886	$ 141,139	$ 29,680	$ 1,280,873
Capital expenditures	$ 224,523	$ 16,755	$ 31,181	$ 13,246	$ 176,128	$ 285,705

Three Months Ended June 30, 2000:

Revenues	$ 15,415,390	$ 2,621,494	$ 9,420,473	$ 4,616,487	$ 0	$32,073,844
Cost of sales	11,014,221	2,107,659	5,743,211	$ 3,756,404	0	22,621,495
Gross profit	4,401,169	513,835	3,677,262	860,083	0	9,452,349
Selling, general and administrative expenses	1,537,433	449,038	3,688,281	$ 1,036,970	$ 1,009,036	7,720,758
Goodwill amortization	66,901	14,586	320,389	111,139	(513,015)	0
Operating income (loss)	$ 2,796,835	$ 50,211	$ (331,408)	$ (288,026)	$ (496,021)	$ 1,731,591
Depreciation and amortization	$ 557,833	$ 190,355	$ 404,343	$ 126,138	$ 45,000	$ 1,278,669
Capital expenditures	$ 532,912	$ 3,712	$ 76,995	$ 58,436	$ 28,801	$ 672,055

</TABLE>

NOTE 4 - INVENTORIES

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

	June 30 2001	December 31 2000
Finished Goods	$ 9,653,027	$ 10,876,529
Raw Materials	17,877,803	16,603,310
Total	$ 27,530,830	$ 27,479,839

NOTE 5 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended June 30, 2001 and 2000 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rico operations is taxed at rates lower than the U.S. rate.

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

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

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Consolidated sales decreased 23% to $48,776,000. Consolidated operating income decreased 87% to $581,000.

Suttle sales decreased 32% to $20,838,000. Sales to the major telephone companies (Bell South, SBC, Verizon and Qwest) decreased $5,721,000 or 32%. Sales to these customers accounted for 58% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased $2,990,000, or 31%. Sales to retail customers decreased $223,000 or 19% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada, decreased 56% to $432,000.

Suttle's sales declines are attributable to slowdown in capital spending by telecommunications industry companies and in particular the Regional Bell Operating Company (RBOC) customers. Sales of DSL products, however, have posted strong growth throughout the first half of 2001 and Suttle plans to introduce additional broadband products this year. DSL revenues increased to $3,357,000 from $531,000 in the year earlier period. Revenues from CorroShield products, which are sold mainly to the major telephone companies, decreased 43%. Sales of conventional voice products declined 8%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products increased 3%.

Suttle's gross margins decreased 60% to $3,956,000. Gross margin percentage declined to 19.0% in 2001 from 32.4% in 2000. The decline in gross margin was due primarily to price cutting to meet competition and from the effect of excess manufacturing overhead costs relative to lower volumes. Suttle's operating income decreased $5,833,000 or 96%. Suttle has implemented cost reduction measures, including 15% workforce reductions at its plants in Minnesota, Puerto Rico and Costa Rica.

Austin Taylor's sales increased 8% to $5,797,000. Austin Taylor's gross margin declined 9% to $851,000. Gross margin as a percentage of sales was 14.7% compared to 17.4% in 2000. The decline in gross margin was principally due to increased pricing competition. Selling, general and administrative expenses decreased modestly by $16,000 due to cost reduction measures implemented. Operating income decreased $67,000 or 62%.

Sales by Transition Networks, Inc. decreased $1,133,000 or 6% from the year earlier period. Gross margin on Transition Networks' sales decreased 7% to $6,674,000. Gross margin as a percentage of sales remained at 38% in 2001as compared to 2000. Selling, general and administrative expenses decreased by $2,000,000 or 28% as a result of effective cost control measures that have significantly reduced operating overhead. Transition Networks had operating income of $1,016,000 in the 2001 period compared to an operating loss of $470,000 in 2000.

Sales by JDL Technologies, Inc. decreased $3,784,000 or 44%. However, most of the sales decrease was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL has been increasing its higher-margin consulting and training services reflected in a gross margin

increase of 10% to $2,109,000. Gross margin as a percentage of sales increased to 44% from 23% in the 2000 period. Selling, general and administrative expenses decreased $286,000, or 15%, due to tighter cost control efforts. JDL's operating income was $261,000 compared to an operating loss of $214,000 in the 2000 period.

Consolidated investment income, net of interest expense, decreased $109,000 due to lower returns on invested funds and increased borrowing from banks. Income before income taxes decreased $4,141,000 or 85%. The Company's effective income tax rate was 29.6% compared to 19.6% in 2000. The increase in the tax rate was because a lower than normal percentage of the Company's earnings was sheltered from U.S. tax in the 2001 period. Net income decreased $3,401,000 or 87%.

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Consolidated sales decreased 20% to $25,682,000. Consolidated operating income decreased 78% to $379,000.

Suttle sales decreased 30% to $10,828,000. Sales to the major telephone companies decreased $1,667,000 to $7,152,000. Sales to these customers accounted for 66% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased $2,718,000, or 50%. Sales to retail customers decreased $131,000 or 21% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales decreased 42% to $215,000.

DSL revenues increased to $991,000 from $263,000 in the year earlier period. Additional broadband products are to be released this year. Sales of Suttle's voice products (CorroShield and conventional products) declined $2,749,000 or 44%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products increased 28%.

Suttle's gross margins decreased 61% to $1,712,000. Gross margin percentage declined to 15.8% in 2001 from 28.6% in 2000. The decline in gross margin was due primarily to price cutting to meet competition and excess factory overhead costs relative to lower volumes. Suttle reported an operating loss of $54,000 in the three month period in 2001 compared to operating income of $2,797,000 in the same period in 2000. Suttle has implemented cost reduction measures in the second quarter of 2001, including 15% workforce reductions at its plants in Minnesota, Puerto Rico and Costa Rica.

Austin Taylor's sales increased 9% to $2,863,000. Austin Taylor's gross margin declined 8% to $474,000. Gross margin as a percentage of sales was 16.6% compared to 19.6% in 2000. Selling, general and administrative expenses decreased $31,000 due to increased cost control efforts. Operating income decreased $9,200 or 18%.

Sales by Transition Networks, Inc. were virtually unchanged from the year earlier level at $9,358,000. Gross margin on Transition Networks' sales also remained at the same level at $3,684,000 in 2001. Gross margin as a percentage of sales remained at 39% in 2001. Selling, general and administrative expenses decreased $1,163,000 or 32% due to significant improvements in cost control and overhead reductions. Transition Networks had operating income of $838,000 in the 2001 period compared to an operating loss of $331,000 in 2000.

Sales by JDL Technologies, Inc. decreased $1,984,000 or 43%. However, most of the sales decrease was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL's gross margin increased $218,000 to $1,078,000 due to increased levels of higher-margin consulting and training services. Gross margin as a percentage of sales increased to 41% from 19% in the 2000 period. Selling, general and administrative expenses decreased $243,000, or 23%, due to JDL's improved cost control efforts. JDL's operating income was $173,000 compared to an operating loss of $288,000 in the 2000 period.

Consolidated investment income, net of interest expense, decreased $56,000 due to decreased returns on invested cash and increased interest expense on notes payable. Income before income taxes decreased $1,408,000 or 76%. The Company's effective income tax rate was 29.2% compared to 14.3% in 2000. Net income decreased $1,273,000 or 80%.

Liquidity and Capital Resources

At June 30, 2001, the Company had approximately $19,674,000 of cash and cash equivalents compared to $11,321,000 of cash and cash equivalents at December 31, 2000. The Company had working capital of approximately $49,744,000 and a current ratio of 3.4 to 1 compared to working capital of $45,486,000 and a current ratio of 3.1 to 1 at the end of 2000.

The Company had operating cash flows of $7,177,000 in the first six months of 2001 compared to negative cash flows of $5,467,000 in the same period in 2000. This was due primarily to a reduction of account receivable as well as a decline in general sales volumes. The Company used substantial amounts of cash to support higher accounts receivable and inventory balances at JDL Technologies and Transition Networks in the April to June, 2000 period. The Company has adjusted the business plans of these operations in order to conserve cash and reduce excess inventory and accounts receivable levels.

Investing activities provided $5,254,000 of cash in the 2001 period which was due to a redemption of mortgage backed securities and collection of notes receivable. Cash investments in new plant and equipment totaled $712,000 in the six month period in 2001 compared with $1,361,000 for the same period in 2000 financed by internal cash flows. The Company expects to spend $1,500,000 on capital additions in 2001.

Net cash used in financing activities was $4,093,000 for the first six months of 2001. The Company retired $21,000 of notes payable in 2001 and $3,922,000 in the first half of 2000. However, cash requirements at JDL Technologies and Transition Networks necessitated $2,300,000 of new borrowing in June 2000. Notes payable were $9,081,000 at June 30, 2001 compared to $7,421,000 at December 31, 2000. The Company purchased and retired 253,866 shares of its stock in open market transactions during the 2001 period. At June 30, 2001 Board authorizations are outstanding to purchase an additional 49,000 shares. Dividends paid on common stock were $1,718,000. The Company received $3,093,000 of cash in the 2000 period from exercises of employee stock options.

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 Principles:

In July 2001, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

This statement applies to intangibles and goodwill acquired after June 30, 2001, as well as goodwill and intangibles previously acquired. Under this statement goodwill as well as other intangibles determined to have an infinite life will no longer be amortized; however, these assets will be reviewed for impairment on a periodic basis. Statement No. 142 also includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. The Statement is effective for the Company on January 1, 2002. The Company is currently assessing but has not yet determined the impact of the Statement on its financial position and results of operations. As of June 30, 2001 and 2000 the Company had net goodwill of $5,684,000 and $6,729,000, respectively. Amortization expense recorded during the six months ended June 30, 2001 and 2000 was $1,045,000.

PART II. OTHER INFORMATION

Items 1 - 3. Not Applicable

Item 4. Submission of Matters to a Vote of Securities Holders

The Annual Meeting of the Shareholders of the Registrant was held on May 17, 2001 in Eden Praire, MN. The total number of shares outstanding and entitled to vote at the meeting was 8,307,209 of which 7,619,232 were present either in person or by proxy. Shareholders re-elected board members Curtis A. Sampson and Gerald D. Pint to three-year terms expiring at the 2004 Annual Meeting of Shareholders. The vote for these board members was as follows:

	In Favor	Abstaining
Curtis A. Sampson	7,395,025	224,207
Gerald D. Pint	7,550,575	68,656

Board members continuing in office are Edwin C. Freeman, Luella Gross Goldberg and Randall D. Sampson (whose terms expire at the 2002 Annual Meeting of Shareholders) and Paul J. Anderson, Wayne E. Sampson and Frederick M. Green (whose terms expire at the 2003 Annual Meeting of Shareholders).

Shareholders also approved an amendment to increase the number of shares authorized to be issued under the Company's 1990 Stock Option Plan for Nonemployee Directors from 200,000 shares to 300,000 shares. The plan provides for the automatic grant of options to purchase 3,000 shares of common stock annually to each nonemployee director concurrent with the annual shareholder meeting of the Company at an option price equal to the fair market value of the Company's common stock at the date of grant. The vote to approve the amendment was 7,264,660 in favor, 224,439 against and 130,132 abstaining.

Items 5 - 6. Not Applicable

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

Communications Systems, Inc.

By /s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: August 14, 2001