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, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-10355

COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

(320) 848-6231

Registrant's telephone number, including area code

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

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

CLASS	Outstanding at July 31, 2000
Common Stock, par value $.05 per share	8,754,647

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

<TABLE>
<CAPTION>

PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30 2000	December 31 1999
Assets:		
Current assets:		
<S>	<C>	<C>
Cash	$ 7,447,613	$ 14,837,655
Receivables, net	24,409,803	21,125,610
Inventories (Note 4)	29,565,945	21,168,942
Deferred income taxes	1,735,000	1,735,000
Other current assets	382,238	574,530
Total current assets	63,540,599	59,441,737
Property, plant and equipment	33,150,967	32,147,128
less accumulated depreciation	(22,538,958)	(21,187,460)
Net property, plant and equipment	10,612,009	10,959,668
Other assets:		
Excess of cost over net assets acquired	7,774,459	8,819,923
Investments in mortgage backed and other securities	5,905,266	6,078,365
Deferred income taxes	2,175,459	2,168,571
Note receivable	3,165,390	3,365,390
Other assets	408,391	642,399
Total other assets	19,428,965	21,074,648
Total Assets	$ 93,581,573	$ 91,476,053
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 7,421,218	$ 9,043,035
Accounts payable	9,222,518	8,075,596
Accrued expenses	3,979,029	4,291,797
Dividends payable	874,302	855,087
Income taxes payable	1,244,610	2,788,746
Total current liabilities	22,741,677	25,054,261
Stockholders' Equity	70,839,896	66,421,792
Total Liabilities and Stockholders' Equity	$ 93,581,573	$ 91,476,053

See notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Sales	$ 32,073,844	$ 29,807,344	$ 62,938,036	$ 56,404,236
Costs and expenses:				
Cost of sales	22,621,495	19,906,281	43,012,384	37,467,395
Selling, general and administrative expenses	7,720,758	7,822,663	15,311,849	13,597,274
Total costs and expenses	30,342,253	27,728,944	58,324,233	51,064,669
Operating income	1,731,591	2,078,400	4,613,803	5,339,567
Other income and (expenses):				
Investment income	255,553	218,125	513,699	421,760
Interest expense	(133,825)	(168,835)	(276,371)	(321,178)
Other income, net	121,728	49,290	237,328	100,582
Income before income taxes	1,853,319	2,127,690	4,851,131	5,440,149
Income taxes (Note 5)	265,000	380,000	950,000	1,220,000
Net income	1,588,319	1,747,690	3,901,131	4,220,149
Other comprehensive income (loss):				
Unrealized holding gain (loss) on debt securities	17,607		(7,031)	
Foreign currency translation adjustment	(234,921)	(94,154)	(266,139)	(325,657)
Other comprehensive loss before income taxes	(217,314)	(94,154)	(273,170)	(325,657)
Income tax expense (benefit) related to unrealized loss on debt securities	6,103		(2,437)	
	(223,417)	(94,154)	(270,733)	(325,657)
Comprehensive income	$ 1,364,902	$ 1,653,536	$ 3,630,398	$ 3,894,492
Basic net income per share	$ .18	$ .20	$ .45	$ .48
Diluted net income per share	$ .18	$ .20	$ .44	$ .48
Average Basic Shares Outstanding	8,795,838	8,623,804	8,721,219	8,712,894
Average Dilutive Shares Outstanding	8,984,864	8,716,487	8,938,873	8,775,711

See notes to consolidated financial statements.

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<CAPTION>

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, 1998	8,791,301	$439,565	$25,250,914	$37,862,463	$ (288,225)	$ 188,935	$63,453,652
Net income				9,013,722			9,013,722
Issuance of stock under Employee Stock Purchase Plan	27,431	1,372	266,766				268,138
Issuance of stock to Employee Stock Ownership Plan	19,893	995	234,005				235,000
Issuance of stock under Employee Stock Option Plan	24,783	1,239	259,537				260,776
Stock issued as compensation	8,000	400	91,600				92,000
Stock option compensation			125,798				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				3,901,131			3,901,131
Issuance of stock to Employee Stock Ownership Plan	23,692	1,185	306,811				307,996
Issuance of stock under Employee Stock Option Plan	247,058	12,352	3,080,643				3,092,995
Purchase of stock	(79,000)	(3,950)	(255,786)	(886,195)			(1,145,931)
Shareholder dividends				(1,755,579)			(1,755,579)
Collection of notes receivable					288,225		288,225
Other comprehensive loss						(270,733)	(270,733)
BALANCE AT JUNE 30, 2000	8,743,022	$437,151	$28,433,974	$42,256,226	$ -	$ (287,455)	$70,839,896

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	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 3,901,131	$ 4,220,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,643,322	

		2,448,596
Changes in assets and liabilities net of effects from acquisition of LANart Corporation:		
Increase in accounts receivable	(3,397,437)	(3,864,667)
Decrease (increase) in inventory	(8,519,957)	4,056,044
Decrease (increase) in other current assets	186,926	(358,705)
Increase in accounts payable	1,239,773	557,046
Increase (decrease) in accrued expenses	15,848	(533,887)
Decrease in income taxes payable	(1,537,079)	(78,664)
	------------	------------
Net cash provided by (used in) operating activities	(5,467,473)	6,445,912
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,360,548)	(926,280)
Maturities of mortgage-backed and other investment securities	126,880	166,025
Purchases of mortgaged-backed and other securities		(5,625,000)
Decrease (increase) in other assets	258,700	(196,766)
Collection of notes receivable	200,000	200,000
Payment for purchase of LANart Corporation, net of cash acquired		(3,983,703)
	------------	------------
Net cash used in investing activities	(774,968)	(10,365,724)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(3,921,817)	(266,813)
Proceeds from issuance of notes payable	2,300,000	1,096,921
Dividends paid	(1,736,364)	(1,760,245)
Proceeds from issuance of stock	3,092,995	53,334
Purchase of stock	(1,145,931)	(1,966,903)
Collection of notes receivable	288,225	
	------------	------------
Net cash used in financing activities	(1,122,892)	(2,843,706)
	------------	------------
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(24,709)	(42,925)
	------------	------------
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,390,042)	(6,806,443)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,837,655	20,405,363
	------------	------------
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,447,613	$ 13,598,920
	============	============
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 2,493,807	$ 1,303,136
Interest paid	296,023	325,983

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, 2000, the statements of income and comprehensive income for the three and six month periods ended June 30, 2000 and 1999 and the statements of cash flows for the six-month periods ended June 30, 2000 and 1999 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2000 and 1999 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1999 Annual Report to Shareholders. The results of operations for the periods ended June 30 are not necessarily indicative of the operating results for the entire year.

In February 2000, the Company issued 23,692 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 1999 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $308,000 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

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

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." SAB No. 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues. SAB No. 101 is to be implemented by the Company no later than the fourth quarter of 2000. Based on an initial review, the Company does not expect it to have a significant effect on the financial position or results of operations.

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

NOTE 2 - NET INCOME PER SHARE

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

NOTE 3 - SEGMENT INFORMATION

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies (JDL) which provides telecommunications network design, specification and training services to educational institutions. During 1999, JDL became a more significant portion of the Company and is now identified as a separate segment. Segment results as previously reported have been restated to reflect JDL as a separate segment. Information concerning the Company's continuing operations in the various segments for the six-month periods ended June 30, 2000 and 1999 is as follows:

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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Six Months Ended June 30, 2000:						
Revenues	$ 30,519,056	$ 5,361,329	$ 18,506,929	$ 8,550,722		$ 62,938,036
Cost of sales	20,636,608	4,427,226	11,318,249	6,630,301		43,012,384
Gross profit	9,882,448	934,103	7,188,680	1,920,421		19,925,652
Selling, general and administrative expenses	3,794,296	826,327	7,658,302	2,134,280	$ 898,644	15,311,849
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
Six Months Ended June 30, 1999:						
Revenues	$ 29,977,460	$ 5,708,793	$ 16,729,834	$ 3,988,149		$ 56,404,236
Cost of sales	19,369,544	4,615,993	10,683,321	2,798,537		37,467,395
Gross profit	10,607,916	1,092,800	6,046,513	1,189,612		18,936,841
Selling, general and administrative expenses	4,085,366	680,594	6,653,141	1,340,345	$ 837,828	13,597,274
Operating income (loss)	$ 6,522,550	$ 412,206	$ (606,628)	$ (150,733)	$ (837,828)	$ 5,339,567
Depreciation and amortization	$ 1,059,262	$ 319,923	$ 751,134	$ 237,277	$ 81,000	$ 2,448,596
Capital expenditures	$ 516,764	$ 258,750	$ 96,638	$ 25,240	$ 28,888	$ 926,280
Assets	$ 49,090,211	$ 6,849,903	$ 19,610,095	$ 4,725,645	$ 7,407,937	$ 87,683,791

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

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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Three Months Ended June 30, 2000:						
Revenues	$ 15,415,390	$ 2,621,494	$ 9,420,473	$ 4,616,487		$ 32,073,844
Cost of sales	11,014,221	2,107,659	5,743,211	3,756,404		22,621,495
Gross profit	4,401,169	513,835	3,677,262	860,083		9,452,349
Selling, general and administrative expenses	1,604,334	463,624	4,008,670	1,148,109	$ 496,021	7,720,758
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
Three Months Ended June 30, 1999:						
Revenues	$ 14,007,252	$ 2,901,298	$ 9,964,452	$ 2,934,342		$ 29,807,344
Cost of sales	9,123,663	2,364,131	6,340,492	$ 2,077,995		19,906,281
Gross profit	4,883,589	537,167	3,623,960	856,347		9,901,063
Selling, general and administrative expenses	2,137,522	340,786	4,138,177	764,676	$ 441,502	7,822,663
Operating income (loss)	$ 2,746,067	$ 196,381	$ (514,217)	$ 91,671	$ (441,502)	$ 2,078,400
Depreciation and amortization	$ 529,629	$ 158,649	$ 488,891	$ 118,639	$ 40,500	$ 1,336,308
Capital expenditures	$ 236,671	$ 141,045	$ 36,493	$ 4,961	$ 28,888	$ 448,058

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NOTE 4 - INVENTORIES

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

	June 30 2000	December 31 1999
Finished Goods	$ 9,532,665	$ 7,418,810
Raw Materials	20,033,280	13,750,132
Total	$ 29,565,945	$ 21,168,942

NOTE 5 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended June 30, 2000 and 1999 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rico operations is taxed at rates lower than the U.S. rate.

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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.

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

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Consolidated sales increased 12% to $62,938,000. Consolidated operating income decreased 14% to $4,614,000.

Suttle sales increased 2% to $30,519,000. Sales to the major telephone companies (Bell South, SBC, Verizon and Qwest) decreased $921,000 or 5%. Sales to these customers accounted for 59% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $2,235,000, or 30%. Sales to retail customers decreased $481,000 or 30% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada, decreased 20% to $986,000.

Suttle's sales gains were mainly from sales of data products, which increased 64% from the 1999 period. New data product offerings, especially products suitable for high-speed data transmission, are getting exceptional acceptance from customers. However, Suttle is experiencing supply problems with certain raw materials for these products, resulting in delays in shipments to customers of some products.

Data product sales gains were offset by lower sales of Suttle's voice products. Revenues from CorroShield products, which are sold mainly to the major telephone companies, decreased 8%. Sales of conventional voice products declined 3%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products decreased 17%.

Suttle's gross margins decreased 7% to $9,882,000. Gross margin percentage declined to 32.4% in 2000 from 35.4% in 1999. The decline in gross margin was due primarily to price cutting to meet competition. Suttle's operating income decreased $434,000 or 7%.

Austin Taylor's sales decreased 6% to $5,361,000. The decrease was due to reduced sales of CATV products, below plan sales to Pacific Rim telephone companies and the effects of changes in foreign exchange rates. Austin Taylor's gross margin declined 15% to $934,000. Gross margin as a percentage of sales was 17% compared to 19% in 1998. The decline in gross margin was principally due to lower business volume. Selling, general and administrative expenses increased $146,000 due to increased sales efforts in the Pacific Rim. Operating income decreased $304,000 or 74%.

Sales by Transition Networks, Inc. increased $1,777,000 or 11%. The sales gain was due to increased demand for media conversion products and the full year effect of the acquisition of LANart Corporation in April, 1999. Gross margin on Transition Networks' sales increased 19% to $7,189,000. Gross margin as a percentage of sales increased to 39% from 36% in 1999, principally due to higher volume. Selling, general and administrative expenses increased $1,005,000 or 15%. Transition Networks had an operating loss of $470,000 in the 2000 period compared to an operating loss of $607,000 in 1999. The 1999 period included some costs associated with merging LANart Corporation into Transition Networks.

Sales by JDL Technologies, Inc. increased $4,563,000 or 114%. However, most of the sales increase was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL's gross margin increased 61% to $1,920,000. Gross margin as a percentage of sales decreased to 22% from 30% in the 1999 period. Selling, general and administrative expenses increased $794,000, or 59%, due to expanded sales efforts. JDL's operating loss was $214,000 compared to $151,000 in the 1999 period.

Consolidated investment income, net of interest expense, increased $137,000 due to higher returns on invested funds and reduced borrowing from banks. Income before income taxes decreased $589,000 or 11%. The Company's effective income tax rate was 19.6% compared to 22.4% in 1998. The decrease in the tax rate was because a higher than normal percentage of the Company's earnings was sheltered from U.S. tax in the 2000 period. Net income decreased $319,000 or 8%.

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

Consolidated sales increased 8% to $32,074,000. Consolidated operating income decreased 17% to $1,732,000.

Suttle sales increased 10% to $15,415,000. Sales to the major telephone companies increased $43,000 to $8,819,000. Sales to these customers accounted for 57% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $1,765,000, or 48%. Sales to retail customers decreased $167,000 or 21% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales decreased 43% to $368,000.

Suttle's sales gains were mainly from sales of data products, which increased 87% from the 1999 period. New data product offerings, especially products suitable for high-speed data transmission, are getting exceptional acceptance from customers. However, Suttle is experiencing supply problems with certain raw materials for these products, resulting in delays in shipments to customers of some products.

Sales of Suttle's voice products (CorroShield and conventional products) declined $52,000 or 1%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products decreased 12%.

Suttle's gross margins decreased 10% to $4,401,000. Gross margin percentage declined to 28.6% in 2000 from 34.9% in 1999. The decline in gross margin was due primarily to price cutting to meet competition. Suttle's operating income increased $51,000 due to lower selling and administrative expenses.

Austin Taylor's sales decreased 10% to $2,621,000. The decrease was due to reduced sales of CATV products and below plan sales to international customers. Austin Taylor's gross margin declined 4% to $514,000. Gross margin as a percentage of sales was 19.6% compared to 18.5% in 1999. Selling, general and administrative expenses increased $123,000 due to increased sales efforts in the Pacific Rim. Operating income decreased $146,000 or 74%.

Sales by Transition Networks, Inc. decreased $544,000 or 5%. The sales decline was due to slower than expected demand for media conversion products in the period and the pairing back of certain unprofitable products acquired with LANart Corporation in April, 1999. Gross margin on Transition Networks' sales increased 1% to $3,677,000. Gross margin as a percentage of sales increased to 39% from 36% in 1999. Selling, general and administrative expenses decreased $130,000 or 3%. Transition Networks had an operating loss of $331,000 in the 2000 period compared to an operating loss of $514,000 in 1999. The 1999 period included some costs associated with merging LANart Corporation into Transition Networks.

Sales by JDL Technologies, Inc. increased $1,682,000 or 57%. However, most of the sales increase was made up of low-margin or no-margin reselling of networking equipment to the education market. JDL's gross margin increased $4,000 to $860,000. Gross margin as a percentage of sales decreased to 19% from 29% in the 1999 period. Selling, general and administrative expenses increased $383,000, or 50%, due to JDL's expanded sales efforts. JDL's operating loss was $288,000 compared to operating income of $92,000 in the 1999 period.

Consolidated investment income, net of interest expense, increased $72,000 due to increased returns on invested cash and payments made on notes payable associated with acquisitions. Income before income taxes decreased $274,000 or 13%. The Company's effective income tax rate was 14.3% compared to 17.9% in 1999. Net income decreased $159,000 or 9%.

Liquidity and Capital Resources

At June 30, 2000, the Company had approximately $7,448,000 of cash and cash equivalents compared to $14,838,000 of cash and cash equivalents at December 31, 1999. The Company had working capital of approximately $40,799,000 and a current ratio of 2.8 to 1 compared to working capital of $34,387,000 and a current ratio of 2.4 to 1 at the end of 1999.

The Company had an operating cash flow deficit of $5,467,000 in the first six months of 2000 compared to positive cash flow of $6,446,000 in the same period in 1999. The Company used substantial amounts of cash to support higher accounts receivable and inventory balances at JDL Technologies and Transition Networks in the April to June, 2000 period. Some of these expenditures were made in anticipation of higher business volumes that have failed to materialize. The Company is adjusting the business plans of these operations in order to conserve cash and reduce excess inventory and accounts receivable levels.

Investing activities utilized $775,000 of cash in the 2000 period. Cash investments in new plant and equipment totaled $1,361,000, which was financed by internal cash flows. The Company expects to spend $3,000,000 on capital additions in 2000.

Net cash used in financing activities was $1,123,000 for the first six months of 2000. The Company retired $3,922,000 of notes payable 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 $7,421,000 at June 30, 2000 compared to $9,043,000 at December 31, 1999. The Company purchased and retired 79,000 shares of its stock in open market transactions during the 2000 period. At June 30, 2000 Board authorizations are outstanding to purchase an additional 60,500 shares. Dividends paid on common stock were $1,736,000. The Company received $3,093,000 of cash in the 2000 period from exercises of employee stock options.

The Company has been and continues to be engaged in discussions with a substantially larger public corporation regarding the merger of the Company into the other firm. The Company has retained US Bankcorp Piper Jaffray as its investment banker to assist in these discussions. No assurance can be given that these discussions will result in a definitive merger agreement.

In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

PART II. OTHER INFORMATION

Items 1 - 3. Not Applicable

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Item 4. Submission of Matters to a Vote of Securities Holders
- ---
The Annual Meeting of the Shareholders of the Registrant was held on May 18, 2000 in Minneapolis, MN. The total number of shares outstanding and entitled to vote at the meeting was 8,793,297 of which 8,235,862 were present either in person or by proxy. Shareholders re-elected board members Paul J. Anderson, Wayne E. Sampson and Frederick M. Green to three-year terms expiring at the 2003 Annual Meeting of Shareholders. The vote for these board members was as follows:

	In Favor	Abstaining
Paul J. Anderson	8,179,195	56,667
Wayne E. Sampson	8,174,895	60,967
Frederick M. Green	8,189,601	46,261

Board members continuing in office are Curtis A. Sampson, Joseph W. Parris and Gerald D. Pint (whose terms expire at the 2001 Annual Meeting of Shareholders), and Edwin C. Freeman, Luella Gross Goldberg and Edward E. Strickland (whose terms expire at the 2002 Annual Meeting of Shareholders).

Items 5 - 6. Not Applicable

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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, 2000

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