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

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 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 April 30, 2001
Common Stock, par value $.05 per share	8,391,343

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

Assets:	March 31 2001	December 31 2000
Current assets:		
Cash	$ 15,222,061	$ 11,321,374
Trade receivables, net	17,375,607	23,189,409
Inventories (Note 2)	27,618,278	27,479,839
Note receivable	2,965,390	2,965,390
Deferred income taxes	1,834,745	1,834,745
Other current assets	587,106	626,139
Total current assets	65,603,187	67,416,896
Property, plant and equipment	33,671,583	33,466,268
less accumulated depreciation	(24,175,070)	(23,360,224)
Net property, plant and equipment	9,496,513	10,106,044
Other assets:		
Excess of cost over net assets acquired	6,206,264	6,728,995
Investments in debt securities	5,837,904	5,916,507
Deferred income taxes	2,726,097	2,735,811
Other assets	457,190	293,801
Total other assets	15,227,455	15,675,114
Total Assets	$ 90,327,155	$ 93,198,054
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 10,091,138	$ 9,101,438
Accounts payable	5,650,934	5,866,627
Accrued expenses	3,992,998	4,579,202
Dividends payable	839,753	880,391
Income taxes payable	1,345,066	1,503,468
Total current liabilities	21,919,889	21,931,126
Stockholders' Equity	68,407,266	71,266,928
Total Liabilities and Stockholders' Equity	$ 90,327,155	$ 93,198,054

See notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2001	2000
Sales	$ 23,094,277	$ 30,864,192
Costs and expenses:		

Cost of sales	16,452,246	20,390,889
Selling, general and administrative expenses	5,917,094	7,068,362
Goodwill amortization	522,729	522,729
Total costs and expenses	22,892,069	27,981,980
Operating income	202,208	2,882,212
Other income and (expenses):		
Investment income	243,138	258,146
Interest expense	(180,618)	(142,546)
Other income, net	62,520	115,600
Income before income taxes	264,728	2,997,812
Income taxes (Note 3)	80,000	685,000
Net income	184,728	2,312,812
Other comprehensive income (loss):		
Unrealized holding gain (loss) on debt securities	28,126	(24,638)
Foreign currency translation adjustment	(180,051)	(31,218)
Other comprehensive income (loss) before income taxes	(151,925)	(55,856)
Income tax expense (benefit) related to unrealized loss on debt securities	9,714	(8,540)
Other comprehensive loss	(161,639)	(47,316)
Comprehensive income	$ 23,089	$ 2,265,496
Basic net income per share	$ .02	$ .27
Diluted net income per share	$ .02	$ .26
Average Basic Shares Outstanding	8,459,321	8,646,469
Average Dilutive Shares Outstanding	8,492,066	8,897,392

See notes to consolidated financial statements.

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

<S>	Common Stock Shares <C>	Common Stock Amount <C>	Additional Paid-in Capital <C>	Retained Earnings <C>	Stock Option Notes Receivable <C>	Cumulative Other Comprehensive Income (Loss) <C>	Total <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				184,728			184,728
Issuance of common stock to Employee Stock Ownership Plan	25,000	1,250	219,075				220,325
Purchase of stock	(244,765)	(12,238)	(812,837)	(1,438,248)			(2,263,323)
Shareholder dividends				(839,753)			(839,753)
Other comprehensive loss						(161,639)	(161,639)
BALANCE AT MARCH 31, 2001	8,397,144	$ 419,858	$ 28,283,373	$ 40,216,645	$ -	$ (512,610)	$ 68,407,266

See notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 184,728	$ 2,312,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,306,962	1,319,653
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	5,704,801	(620,229)
Increase in inventory	(230,373)	(2,732,810)
Decrease (increase) in other current assets	(6,330)	98,960
Decrease in accounts payable	(136,810)	(222,575)
(Decrease) increase in accrued expenses	(324,940)	430,464
Decrease in income taxes payable	(157,602)	(69,957)
Net cash provided by operating activities	6,340,436	516,318
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(250,359)	(659,692)
Change in mortgage-backed and other investment securities	74,287	53,490
Increase in other assets	(121,722)	(61,714)
Net cash used in investing activities	(297,794)	(667,916)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments on) notes payable	989,700	(3,908,006)
Dividends paid	(880,391)	(855,087)
Proceeds from issuance of common stock		3,038,007
Collection of stock option notes receivable		288,225
Purchase of stock	(2,263,323)	
Net cash used in financing activities	(2,154,014)	(1,436,861)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	12,059	16,055
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,900,687	(1,572,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,321,374	14,837,655

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,222,061	$ 13,265,251
	============	============
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 245,034	$ 756,184
Interest paid	189,294	60,417

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of stockholders' equity as of March 31, 2001, the statements of income and comprehensive income and the statements of cash flows for the three-month periods ended March 31, 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 March 31, 2001 and 2000 and for the three months then ended 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 March 31 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 - INVENTORIES

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

	March 31 2001	December 31 2000
Finished goods	$ 12,027,410	$ 10,876,529
Raw and processed materials	15,590,868	16,603,310
Total	$ 27,618,278	$ 27,479,839

NOTE 3 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended March 31, 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.

NOTE 4 - NET INCOME PER SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 32,745 shares and 250,923 shares for the periods ended March 31, 2001 and 2000, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

NOTE 5 - SEGMENT INFORMATION

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies (JDL), which provides telecommunications network design, specification and training services to educational institutions. Information concerning the Company's continuing operations in the various segments is as follows:

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SEGMENT INFORMATION

	Suttle	Austin Taylor	Transition Networks	JDL Technolgies	Corporate	Consolidated
Three Months Ended March 31, 2001						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 10,010,080	$ 2,933,849	$ 8,015,723	$ 2,134,625	$ -	$ 23,094,277
Cost of sales	7,766,469	2,556,428	5,025,725	1,103,624	-	16,452,246
Gross profit	2,243,611	377,421	2,989,998	1,031,001	-	6,642,031
Selling, general and administrative expenses	1,857,303	363,024	2,492,121	831,670	372,976	5,917,094
Goodwill amortization	76,619	14,585	320,387	111,138		522,729
Operating income (loss)	$ 309,689	$ (188)	$ 177,490	$ 88,193	$ (372,976)	$ 202,208
Depreciation and amortization	$ 575,147	$ 151,460	$ 409,538	$ 141,138	$ 29,679	$ 1,306,962
Assets	$ 47,359,007	$ 6,300,571	$19,432,092	$ 6,142,439	$11,093,046	$ 90,327,155
Capital expenditures	$ 172,732	$ (1,569)	$ 15,606	$ 55,344	$ 8,246	$ 250,359

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	Suttle	Austin Taylor	Transition Networks	JDL Technolgies	Corporate	Consolidated
Three Months Ended March 31, 2000						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 15,103,666	$ 2,739,835	$ 9,086,456	$ 3,934,235	$ -	$ 30,864,192
Cost of sales	9,622,387	2,319,567	5,575,038	2,873,897	-	20,390,889
Gross profit	5,481,279	420,268	3,511,418	1,060,338	-	10,473,303
Selling, general and administrative expenses	2,113,342	348,120	3,329,247	875,033	402,620	7,068,362
Goodwill amortization	76,619	14,585	320,387	111,138		522,729
Operating income (loss)	$ 3,291,317	$ 57,565	$ (138,214)	$ 74,167	$ (402,623)	$ 2,882,212
Depreciation and amortization	$ 557,833	$ 186,339	$ 404,343	$ 126,138	$ 45,000	$ 1,319,653
Assets	$ 50,471,923	$ 7,481,927	$18,703,420	$ 5,316,701	$10,441,807	$ 92,415,778

Capital expenditures	$ 341,058	$ 99,551	$ 110,376	$ 106,875	$ 1,832	$ 659,692

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

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Consolidated sales decreased 25% to $23,094,000. Consolidated operating income decreased 93% to $202,000. These decreases were due to a significant reduction in capital spending by the Company's major telecommunications service provider customers in the first quarter of 2001.

Suttle sales decreased 33% to $10,010,000. Sales to customers in the United States (U.S.) decreased 32% to $9,792,000. Sales to the major telephone companies (the Regional Bell Operating Companies ("RBOCs" which are Verizon Logistics, Bell South, SBC Communications and Qwest) decreased 45% to $4,992,000. Sales to these customers accounted for 50% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased 6% to $4,063,000. Sales to retail customers decreased $92,000 or 17% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales decreased to $217,000 from $618,000.

Suttle's gross margins decreased 59% to $2,244,000. Gross margin percentage decreased to 22.4% in 2001 from 36.3% in 2000. The gross margin percentage decline was due to the negative effect of manufacturing overhead variances and product mix. Selling, general and administrative expenses excluding goodwill decreased $256,000 or 12%. Suttle's operating income decreased $2,982,000 or 91%.

Austin Taylor's sales increased 7% to $2,934,000. Austin Taylor's gross margin declined 10% to $377,000. Gross margin as a percentage of sales was 12.8% compared to 15.3% in 2000. The decline in gross margin was principally due to lower margin product mix and competitive pricing pressures. Selling, general and administrative expenses increased $15,000. Operating income decreased $58,000.

JDL Technologies, Inc. reported 2000 first quarter sales of $2,135,000 compared to $3,934,000 in 2000. The lower sales volume was due to decreases in sales of lower margin integration hardware and software products. Sales of consulting and training services, on which JDL earns higher margins, increased in 2001 by 95% to $1,077,000 from $526,000 in 2000. Operating income was $88,000 compared to $74,000 reported in the first quarter of 2000.

Transition Networks, Inc. sales decreased by 11% to $8,016,000 in the first quarter of 2001 due to a decline in the telecommunications market for media conversion products. Gross margin decreased to $2,990,000 from $3,511,000. Gross margin as a percentage of sales was 37.3% compared to 38.6% in 2000. Selling, general and administrative expenses decreased by 24% or $837,000 due to recently implemented tighter cost control measures. As a result, operating income increased by $316,000.

Consolidated investment income, net of interest expense, decreased $53,000 due to interest expense on increased notes payable balances. Income before income taxes decreased 91% to $264,728. The Company's effective income tax rate was 30.2% compared to 22.9% in the first quarter of 2000. The increase in the tax rate was due to a lower percentage of company earnings coming from Puerto Rico, where it is sheltered from U.S. tax. Net income decreased $2,128,000 or 92%.

Liquidity and Capital Resources

At March 31, 2001, the Company had approximately $15,222,000 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 $40,718,000 and a current ratio of 2.9 to 1 compared to working capital of $45,486,000 and a current ratio of 3.0 to 1 at the end of 2000.

Cash flow provided by operations was approximately $6,340,000 in the first three months of 2001 compared to $516,000 in the same period in 2000. The increase was due primarily to collections of accounts receivable balances.

Investing activities utilized $298,000 of cash in the 2001 period. Cash investments in new plant and equipment totaled $250,000, which was financed by internal cash flows. The Company expects to spend $2,000,000 on capital additions in 2001.

Net cash used in financing activities was $2,154,000. The Company purchased and retired 244,765 shares of its stock in open market transactions during the 2001 period. The Company purchased and retired an additional 5,800 shares in April 2001. At March 31, 2001 Board authorizations are outstanding to purchase an additional 63,735 shares. Dividends paid on common stock were $880,391. Proceeds from issuances of notes payable in the first quarter of 2001 totaled $989,700.

Lower telecom capital expenditures and the wave of consolidations among the Regional Bell Operating Companies (RBOCs) have resulted in many customers depleting safety stocks and reducing inventories of Suttle products. To help strengthen future operating results amid these difficult market conditions, the workforce of Suttle's operation has been reduced by nearly 17% since the beginning of 2001. Annualized savings from this action will approximate $500,000. Suttle's sales force is also being reorganized to work more closely with RBOC customers and capitalize on new opportunities as market conditions strengthen.

Reflecting the impact of the cost reduction measures taken, the Company's earnings for the second quarter ending June 30, 2001 are expected to improve over the first quarter level. However, due to the continuation of weak conditions in the telecommunications market, this year's second quarter earnings are expected to be down from the level posted in the second quarter of 2000.

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.

Cautionary Statement: This document contains forward-looking statements concerning possible or anticipated future financial performance, business activities or plans. For such forward-looking statements, the Company claims the protections of the safe harbor for forward-looking statements contained in federal securities laws. Such forward-looking statements are subject to risks and uncertainties that could cause actual performance, activities or plans to differ significantly from those indicated in the forward-looking statements. These risk factors are discussed in the Company's Form 10-K for the year ended December 31, 2000, filed with the Securities and Exchange Commission.

Items 1 - 6. Not Applicable

Signatures

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

Communications Systems, Inc.

By /s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: May 14, 2001