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

FORM 10-Q

(Mark One)

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

For the quarterly period ended SEPTEMBER 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 October 31, 2001
Common Stock, par value $.05 per share	8,263,475

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

	Page No.
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Income and Comprehensive Income	4
Consolidated Statements of Changes in Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10

Part II. Other Information 13

<TABLE>
<CAPTION>

PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30 2001	December 31 2000
Assets:		
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	$ 20,724,829	$ 11,321,374
Receivables, net	18,288,458	23,189,409
Inventories (Note 4)	25,753,648	27,479,839
Note Receivable	2,765,390	2,965,390
Deferred income taxes	1,834,745	1,834,745
Other current assets	649,678	626,139
Total current assets	70,016,748	67,416,896
Property, plant and equipment	34,533,875	33,466,268
less accumulated depreciation	(25,759,845)	(23,360,224)
Net property, plant and equipment	8,774,030	10,106,044
Other assets:		
Excess of cost over net assets acquired	5,160,800	6,728,995
Investments in mortgage backed and other securities	33,260	5,916,507
Deferred income taxes	2,734,356	2,735,811
Other assets	303,720	293,801
Total other assets	8,232,136	15,675,114
Total Assets	$ 87,022,914	$ 93,198,054
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 9,000,000	$ 9,101,438
Accounts payable	5,076,902	5,866,627
Accrued expenses	4,926,190	4,579,202
Dividends payable		880,391
Income taxes payable	991,596	1,503,468
Total current liabilities	19,994,688	21,931,126
Stockholders' Equity	67,028,226	71,266,928
Total Liabilities and Stockholders' Equity	$ 87,022,914	$ 93,198,054

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See notes to consolidated financial statements.

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
--	2001	2000	2001	2000
--				
<S>	<C>	<C>	<C>	<C>

Sales	$ 23,073,751	$ 29,654,108	$ 71,849,561	$ 92,592,144
Costs and expenses:				
Cost of sales	17,464,144	20,615,336	52,649,728	63,627,720
Selling, general and administrative expenses	6,100,458	7,187,898	19,109,437	22,499,747
Total costs and expenses	23,564,602	27,803,234	71,759,165	86,127,467
Operating income (loss)	(490,851)	1,850,874	90,396	6,464,677
Other income and (expenses):				
Investment income	153,268	217,689	622,771	731,388
Interest expense	(128,742)	(211,089)	(469,530)	(487,460)
Other income, net	24,526	6,600	153,241	243,928
Income before income taxes	(466,325)	1,857,474	243,637	6,708,605
Income tax expense (benefit) (Note 5)	(270,000)	350,000	(60,000)	1,300,000
Net income (loss)	$ (196,325)	$ 1,507,474	$ 303,637	$ 5,408,605
Other comprehensive income (loss):				
Unrealized holding gain on debt securities		38,644		31,613
Foreign currency translation adjustment	170,311	(130,092)	(11,636)	(396,231)
Other comprehensive loss before income taxes	170,311	(91,448)	(11,636)	(364,618)
Income tax expense related to unrealized gain on debt securities		13,394		10,957
	170,311	(104,842)	(11,636)	(375,575)
Comprehensive income (loss)	$ (26,014)	$ 1,402,632	$ 292,001	$ 5,033,030
Basic net income (loss) per share	$ (.02)	$ .17	$ .04	$ .62
Diluted net income (loss) per share	$ (.02)	$ .17	$ .04	$ .61
Average Basic Shares Outstanding	8,365,133	8,771,679	8,396,236	8,738,155
Average Dilutive Shares Outstanding	8,365,133	8,910,290	8,399,272	8,901,609

See notes to consolidated financial statements.

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

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

BALANCE AT DECEMBER 31, 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				303,637			303,637
Issuance of common stock to Employee Stock Ownership Plan	25,000	1,250	219,075				220,325
Issuance of common stock under Employee Stock Purchase Plan	15,657	783	82,363				83,146
Purchase of stock	(383,912)	(19,196)	(1,281,535)	(1,859,776)			(3,160,507)
Shareholder dividends				(1,673,667)			(1,673,667)
Other comprehensive loss						(11,636)	(11,636)
BALANCE AT SEPTEMBER 30, 2001	8,273,654	$ 413,683	$ 27,897,038	$ 39,080,112	$ -	$ (362,607)	$ 67,028,226

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

	Nine Months Ended September 30	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 303,637	$ 5,408,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,808,018	3,972,128
Changes in assets and liabilities :		
Accounts receivable	4,881,125	(6,220,735)
Inventories	1,698,856	(8,662,925)

Other current assets	(22,639)	(46,285)
Accounts payable	(220,822)	(1,707,642)
Accrued expenses	16,841	676,494
Income taxes payable	(508,268)	(1,548,697)
Net cash provided by (used in) operating activities	9,956,748	(8,129,057)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(926,420)	(1,922,215)
Maturities of mortgage-backed and other investment securities	5,883,247	167,041
Other assets	(16,033)	365,116
Collection of notes receivable	200,000	200,000
Net cash provided by (used in) investing activities	5,140,794	(1,190,058)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(101,438)	(3,931,573)
Proceeds from issuance of notes payable		5,000,000
Dividends paid	(2,554,058)	(2,610,667)
Proceeds from issuance of stock	83,146	3,639,774
Purchase of stock	(3,160,507)	(1,175,132)
Collection of stock option notes receivable		288,225
Net cash (used in) provided by financing activities	(5,732,857)	1,210,627
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	38,770	(46,011)
NET DECREASE IN CASH AND CASH EQUIVALENTS	9,403,455	(8,154,499)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,321,374	14,837,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,724,829	$ 6,683,156
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 451,872	$ 2,858,776
Interest paid	454,746	474,954

See notes to consolidated financial statements.

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of changes in stockholders' equity as of September 30, 2001, the statements of income and comprehensive income for the three and nine month periods ended September 30, 2001 and 2000 and the statements of cash flows for the nine-month periods ended September 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 September 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 September 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, if any. 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 nine-month periods ended September 30, 2001 and 2000 is as follows:
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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Nine Months Ended Sept. 30, 2001:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 30,953,843	$ 7,644,306	$ 26,360,158	$ 6,891,254		$ 71,849,561
Cost of sales	24,998,427	6,968,203	16,532,938	4,150,160		52,649,728
Gross profit	5,955,416	676,103	9,827,220	2,741,094		19,199,833
Selling, general and administrative expenses	5,241,545	1,150,222	7,443,915	2,357,796	$ 2,915,959	19,109,437
Goodwill amortization	229,869	43,749	977,914	333,414	(1,584,946)	0
Operating income (loss)	$ 484,002	$ (517,868)	$ 1,405,391	$ 49,884	$(1,331,013)	$ 90,396
Depreciation and amortization	$ 1,637,694	$ 429,235	$ 1,228,638	$ 423,414	$ 89,037	$ 3,808,018
Capital expenditures	$ 556,055	$ -	$ 72,190	$ 88,548	$ 209,627	$ 926,420

Assets	$ 47,814,338	$ 5,906,433	$ 19,164,532	$ 5,921,272	$ 8,216,339	$ 87,022,914
Nine Months Ended Sept. 30, 2000:						
Revenues	$ 44,090,192	$ 7,488,679	$ 29,484,368	$11,528,905		$ 92,592,144
Cost of sales	30,326,723	6,301,091	18,240,652	8,759,254		63,627,720
Gross profit	13,763,469	1,187,588	11,243,716	2,769,651		28,964,424
Selling, general and administrative expenses	5,413,451	1,157,350	10,257,613	2,842,096	$ 2,829,237	22,499,747
Goodwill amortization	229,869	43,749	977,914	333,414	(1,584,946)	0
Operating income (loss)	$ 8,120,149	$ (13,511)	$ 8,189	$ (405,859)	$(1,244,291)	$ 6,464,677
Depreciation and amortization	$ 1,673,499	$ 572,186	$ 1,213,029	$ 378,414	$ 135,000	$ 3,972,128
Capital expenditures	$ 1,215,500	$ 196,111	$ 209,458	$ 266,808	$ 34,338	$ 1,922,215
Assets	$ 48,155,680	$ 6,692,516	$ 22,445,091	$ 8,696,278	$ 8,955,089	$ 94,944,654

</TABLE>

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

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	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Three Months Ended Sept. 30, 2001:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 10,116,147	$ 1,847,280	$ 8,985,956	$ 2,124,368		$ 23,073,751
Cost of sales	8,116,802	2,022,488	5,832,648	1,492,206		17,464,144
Gross profit	1,999,345	(175,208)	3,153,308	632,162		5,609,607
Selling, general and administrative expenses	1,669,858	368,900	2,409,604	732,285	$ 919,811	6,100,458
Goodwill amortization	86,345	14,580	337,140	111,137	(549,202)	0
Operating income (loss)	$ 243,142	$ (558,688)	$ 406,564	$ (211,260)	$ (370,609)	$ (490,851)
Depreciation and amortization	$ 489,421	$ 121,053	$ 409,214	$ 141,137	$ 29,678	$ 1,190,503
Capital expenditures	$ 162,289	$ -	$ 25,403	$ 19,958	$ 25,253	

$ 232,903

Three Months Ended September 30, 2000:						
Revenues	$ 13,571,136	$ 2,127,350	$ 10,977,439	$ 2,978,183		$ 29,654,108
Cost of sales	9,690,115	1,873,865	6,922,403	2,128,953		20,615,336
Gross profit	3,881,021	253,485	4,055,036	849,230		9,038,772
Selling, general and administrative expenses	1,762,679	360,192	3,240,085	930,093	$ 894,849	7,187,898
Goodwill amortization	86,345	14,580	337,140	111,137	(549,202)	0
Operating income (loss)	$ 2,031,997	$ (121,287)	$ 477,811	$ (192,000)	$ (345,647)	$ 1,850,874
Depreciation and amortization	$ 557,833	$ 195,492	$ 404,343	$ 126,138	$ 45,000	$ 1,328,806
Capital expenditures	$ 341,530	$ 92,848	$ 22,087	$ 101,497	$ 3,705	$ 561,667

</TABLE>

NOTE 4 - INVENTORIES

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

	September 30 2001	December 31 2000
Finished Goods	$ 8,435,114	$ 10,876,529
Raw Materials	17,318,534	16,603,310
Total	$ 25,753,648	$ 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 September 30, 2001 and 2000 income tax rates do not bear a normal relationship to income taxes, primarily because income from Puerto Rico operations is taxed at rates lower than the U.S. rate.

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

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

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Consolidated sales decreased 22% to $71,850,000. Consolidated operating income decreased 99% to $90,400.

Suttle sales decreased 30% to $30,954,000. Sales to the major telephone companies (Bell South, SBC, Verizon and Qwest) decreased $9,736,000 or 40%. Sales to these customers accounted for 48% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased $2,054,000 or 13%. Sales to retail customers decreased $383,000 or 22% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada, decreased $1,008,000 to $701,000.

Suttle's sales declines are attributable to lower capital spending by telecommunications industry companies and in particular Suttle's Regional Bell Operating Company (RBOC) customers. Sales of DSL (Digital subscriber line) products, however, have posted strong growth throughout the nine month period of 2001. DSL revenues increased to $4,148,000 from $1,443,000 in the year earlier period. Revenues from CorroShield products, which are sold mainly to the major telephone companies, decreased 39%. Sales of conventional voice products declined 15%. Sales of voice products are being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products increased 16%.

Suttle's gross margins decreased 57% to $5,955,000. Gross margin percentage declined to 19.2% in 2001 from 31.2% in 2000. The decline in gross margin was due to price-cutting to meet competition as well as unfavorable overhead comparisons caused by lower than anticipated production volume. Suttle's operating income decreased $7,636,000 or 94%. Suttle has implemented cost reduction and other business restructuring measures at its plants in Minnesota, Puerto Rico and Costa Rica. Suttle's nine month operating income was $484,000 in comparison to $8,120,000 in the same 2000 period.

Austin Taylor's sales increased 2% to $7,644,000. Austin Taylor's gross margin declined 43% to $676,000. Gross margin as a percentage of sales was 9% compared to 16% in 2000. The decline in gross margin was principally due to competitive pricing pressures, loss of higher margin business and third quarter expenses associated with restructuring the operations to match current volume levels. Selling, general and administrative expenses decreased $7,100 from the prior year. Austin Taylor had an operating loss of $518,000 in the 2001 nine month period compared to an operating loss of $13,500 in the same 2000 period.

Sales by Transition Networks, Inc. decreased to $26,360,000 or 11%. The sales decline was due to decreased demand for media conversion products and general slowdown in capital spending in the telecommunications marketplace . Sales to distributors in the nine month period represented 57% of total year to date sales. Gross margin on Transition Networks' sales decreased 13% to $9,827,000. Gross margin as a percentage of sales decreased slightly to 37% from 38% in 2000, principally due to lower volume. Selling, general and administrative expenses decreased $2,814,000 or 27% due to aggressive cost control implementation. Transition Networks had operating income of $1,405,000 in the 2001 period compared to operating income of $8,200 in 2000.

Sales by JDL Technologies, Inc. decreased $4,638,000 or 40%. 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 remained consistent with the previous year at approximately $2,741,000 reflecting increased revenues and higher margins on training, consulting and design services. Gross margin as a percentage of sales increased to 40% from 24% in the 2000 period. Selling, general and administrative expenses decreased $484,000, or 17%, due to effective cost control efforts. JDL's operating income was $50,000 compared to an operating loss of $406,000 in the 2000 period.

Consolidated investment income, net of interest expense, decreased $91,000 due to lower returns on invested funds. Income before income taxes decreased $6,465,000 or 96%. The Company's effective income tax rate (recovery) was (24.6)% compared to 19.4% in 2000. The decrease in the tax rate was attributable to a lower percentage of the Company's earnings allocated to U.S. tax in the 2001 period. Net income decreased $5,105,000 or 94%.

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

Consolidated sales decreased 22% to $23,074,000. The Company reported an operating loss of $491,000 in the third quarter of 2001 compared to operating income of $1,851,000 in the same period of 2000.

Suttle sales decreased 25% to $10,116,000. Sales to the major telephone companies decreased $4,016,000 to $2,695,000. Sales to these customers accounted for 27% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $936,000, or 17%. Sales to retail customers decreased $160,000 or 28% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales decreased $454,000 to $269,000.

Sales of Suttle's voice products (CorroShield and conventional products) declined $1,620,000 or 27%. Sales of data products decreased 30% from the 2000 period. Sales of fiber-optic connector products increased 36% to $808,000. Sales of DSL (digital subscriber line) filters were $791,000 in the third quarter of 2001 compared to $912,000 in the same period in 2000.

Suttle's gross margins decreased 48% to $1,999,000. Gross margin percentage declined to 19.8% in 2001 from 28.6% in 2000. The decline in gross margin was due to price-cutting to meet competition as well as unfavorable overhead comparisons caused by lower than anticipated production volume. Suttle's operating income decreased $1,789,000 or 88%.

Austin Taylor's sales decreased 13% to $1,847,000. Austin Taylor's gross margin declined by $429,000. The decline in gross margin was principally due to lower business volume and costs associated with restructuring the business to match current volume levels. Selling, general and administrative expenses increased $8,700. Austin Taylor had an operating loss of $559,000 in the 2001 period compared to an operating loss of $121,000 in 2000.

Sales by Transition Networks, Inc. decreased $1,991,000 or 18%. Gross margin on Transition Networks' sales decreased 22% to $3,153,000. Gross margin as a percentage of sales decreased to 35% from 37% in 2000. Selling, general and administrative expenses decreased $830,000 or 26% due to effective cost control implementation. During the third quarter of 2000, the Company implemented a cost reduction program aimed at lowering this unit's overhead structure by 20%. Transition Networks had operating income of $407,000 in the 2001 period compared to operating income of $478,000 in 2000.

Sales by JDL Technologies, Inc. decreased 29% to $2,124,000. 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 decreased $217,000 to $632,000. Gross margin as a percentage of sales increased to 30% in 2001 from 29% in the 2000 period. Selling, general and administrative expenses decreased $198,000, or 21%, due to cost control efforts. JDL's operating loss was $211,000 compared to a loss of $192,000 in the 2000 period.

Consolidated investment income, net of interest expense, increased $18,000 due to decreased interest expense on bank borrowings and higher cash balances available for investment. Income before income taxes decreased $2,324,000. The Company's effective income tax rate (recovery) was (57.8)% compared to 18.8% in 2000. Net income decreased $1,704,000.

Liquidity and Capital Resources

At September 30, 2001, the Company had approximately $20,725,000 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 $50,022,000 and a current ratio of 3.5 to 1 compared to working capital of $45,486,000 and a current ratio of 3.0 to 1 at the end of 2000.

The Company had positive operating cash flow of $9,957,000 in the first nine months of 2001 compared to negative operating cash flow of $8,129,000 in the same period in 2000. This was due to reductions in accounts receivable and inventory levels as result of lower sales volumes and adjustments made to business plans to conserve cash. The Company used substantial amounts of cash in the 2000 period to support higher inventory and accounts receivable balances at JDL Technologies and Transition Networks.

Investing activities provided $5,137,000 of cash in the 2001 period which was due to redemption of mortgage backed securities and collection of notes receivable. Cash investments in new plant and equipment totaled $926,000 in the nine month period in 2001 compared with $1,922,000 for the same period in 2000. Investments in both years were financed by internal cash flows. The Company expects to spend a total of $1,500,000 on capital additions in 2001.

Net cash flows used in financing activities were $5,729,000 for the first nine months of 2001. The Company retired $101,000 of notes payable in the first nine months of 2001. Notes payable were $9,000,000 at September 30, 2001 compared to $9,101,000 at December 31, 2000. The Company purchased and retired 383,912 shares of its stock in open market transactions during the 2001 period. At September 30, 2001 Board authorizations are outstanding to purchase an additional 228,000 shares. Dividends paid on common stock were $2,550,000. Effective for the quarter beginning October 1, 2001, the CSI Board of Directors has suspended the payment of a regular quarterly dividend due to the substantial reduction in earnings during the past several quarters. Reinstatement of a quarterly dividend will be reviewed on a regular basis. The Company received $83,000 of cash in the 2001 period from employee stock purchases.

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 September 30, 2001 and 2000 the Company had net goodwill of $5,160,000 and $7,252,000, respectively. Amortization expense recorded during the nine months ended September 30, 2001 and 2000 was $1,554,000.

PART II. OTHER INFORMATION

Items 1 - 6. Not Applicable

Signatures

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

Communications Systems, Inc.

By /s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: November 14, 2001