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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1999

OR

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

Commission File Number: 0-10355

COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Minnesota	41-0957999
(State or other jurisdiction of incorporation or organization)	(Federal Employer Identification No.)

213 South Main Street

Hector, MN 55342
(Address of principal executive offices and zip code)

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

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

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

Title of each class

Common Stock, $.05 par value

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $134,852,000 based upon the closing sale price of the Company's common stock on the NASDAQ National Market System on March 17, 2000.

As of March 17, 2000 there were outstanding 8,768,047 shares of the Registrant's common stock.

Documents Incorporated by Reference: The Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 18, 2000 is incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

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

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

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

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

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

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies, which provides telecommunications network design, specification and training services to educational institutions. The Company conducts manufacturing in the United States (including Puerto Rico), the United Kingdom and Costa Rica. Information regarding operations in the various segments is set forth in Note 9 of the Notes to Consolidated Financial Statements under Item 8, herein.

(c) NARRATIVE DESCRIPTION OF BUSINESS

(1) Suttle

The Company manufactures and markets connectors and wiring devices for voice, data and video communications under the "Suttle" brand name in the United States (U.S.) and internationally. The Company also manufactures a line of high performance fiber-optic connectors, interconnect devices and fiber cable assemblies for the telecommunications, computer and electronics markets. Products are manufactured at the Company's plants in Hector, Minnesota (Suttle Apparatus Minnesota Division), Humacao, Puerto Rico (Suttle Caribe, Inc.) and San Jose, Costa Rica (Suttle Costa Rica, S.A.). Segment sales were $58,398,000 in 1999, or 50% of consolidated revenues.

(A) Products

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

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

(B) Markets and Marketing

Suttle competes in all major areas of the telecommunications connector market characterized by modular four, six and eight conductor jacks. Customers include the "Big 6" telephone companies (the five Regional Bell Operating Companies, or "RBOCs" and GTE), other telephone companies, electrical contractors, interconnect companies, original equipment manufacturers and retailers. These customers are served directly through the Company's sales staff and through distributors such as Sprint North Supply, Graybar Electric Company, Alltel Supply, KGP and Anixter Communications.

As a group, sales to the Big 6 telephone companies, both directly and through distribution, were approximately $35,526,000 in 1999 and $33,245,000 in 1998, which represented about 60% of Suttle's sales in each year. Sales to GTE Supply, Alltel Supply and KGP, the principal distributors serving this market, amounted to 18%, 12% and 16%, respectively, of Suttle's sales in 1999. Sales to GTE Supply and KGP were 17% and 13%, respectively, of Suttle's sales in 1998.

The Company believes business and network systems products will become an increasingly important part of its product line. Independent contractors (which include businesses often referred to as "interconnect companies") are engaged in the business of engineering, selling, installing and maintaining telephone equipment for the business community. The Company markets its products to independent contractors through a network of manufacturer's representatives, through distribution, and through the Company's sales staff. Sales of products for business and network systems accounted for 10% and 11% of Suttle's revenues in 1999 and 1998, respectively.

Approximately 5% of Suttle's 1999 revenues and 8% of 1998 revenues were derived from sales in the retail market. The Company is a supplier of station apparatus to Radio Shack, other retailers, office supply distributors and specialized telephone stores. Sales to the retail market are made through a limited number of manufacturers' representatives.

Fiber-optic products are marketed to original equipment manufacturers (OEMs) in the U.S. and internationally through the Company's sales staff, manufacturers' representatives and a network of distributors, including Graybar Electric Company, Arcade Electronics and Primestock. Sales of fiber-optic products accounted for 4% and 6% of Suttle's revenues in 1999 and 1998, respectively.

The balance of Suttle's sales in 1999 and 1998 were to original equipment manufacturers, non-Big 6 telephone companies and international customers. In the communications industry market, sales to telephone companies are made directly or through distribution. Sales to OEM customers are made through a nationwide network of distributors, some of which are affiliates of major telephone companies, and through the Company's sales staff.

(C) Competition

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

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

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

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

(D) Order Book

Suttle manufactures its products on the basis of estimated customer requirements. Outstanding customer orders at March 1, 2000, were approximately $3,992,000 compared to approximately $3,551,000 at March 1, 1999. Because new orders are filled on a relatively short timetable, the Company does not believe its order book is a significant indicator of future results.

(E) Manufacturing and Sources of Supply

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

(F) Research and Development; Patents

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

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

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

(2) Austin Taylor

Austin Taylor Communications, Ltd. manufactures voice and data connectors and related products at its plant in Bethesda, Wales, U.K. Its product line consists of British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames. Sales by Austin Taylor were $12,031,000, or 10% of consolidated revenues, in 1999 and $11,730,000 or 16% in 1998.

Austin Taylor is a vertically integrated manufacturer with metal stamping, metal bending, forming and painting, plastic injection molding and printed circuit board assembly capabilities. Austin Taylor's major customers include Cable and Wireless Communications, Northern Telecom Europe, Lucent Technologies and British Telecom. Austin Taylor's products are sold directly by its sales staff and through distributors, including Anixter Communications, NS Supply Group, RS Components and Telcom Products. Approximately 52% and 61% of Austin Taylor sales were to United Kingdom customers in 1999 and 1998, respectively.

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

Outstanding customer orders for Austin Taylor products were approximately $1,587,000 at March 1, 2000 compared to $539,000 at March 1, 1999. Because Austin Taylor fills new orders on a relatively short timetable, the Company does not believe its order book is a significant indicator of future results.

(3) Transition Networks

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

TNI markets its products in the U.S. and internationally through its sales staff and a limited number of distributors. TNI has international sales offices in London and Prague and distribution partners in South America and the Pacific Rim. TNI is generally regarded as the market leader in conversion technology. Its principal competitors include Allied Telsyn International and Digi International. Sales by TNI for 1999 were $35,363,000 and represented 30% of consolidated revenues. Sales by TNI for all of 1998 totaled $24,558,000 of which $2,208,000 were included in the Company's consolidated operating results for 1998.

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

(4) JDL Technologies, Inc.

JDL Technologies, Inc. provides telecommunications network design, specification, and training services to educational institutions. JDL also sells internet access software for use in elementary and secondary schools. The company was acquired effective August 7, 1998. Sales by JDL for 1999 totaled $11,141,000 and represented 10% of consolidated revenues. Total sales for 1998 totaled $5,613,000 of which $1,681,000 were included in the Company's operating results.

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

(5) Employment Levels

As of March 1, 2000 the Company employed 1,000 people. Of this number, 670 were employed by Suttle (including 205 in Puerto Rico, 193 in Hector, Minnesota and 272 in Costa Rica), 179 by Austin Taylor Communications, Ltd., 101 by Transition Networks, Inc., 34 by JDL Technologies, Inc. and 16 held general and administrative positions. The Company considers its employee relations to be good.

(6) Factors Affecting Future Performance

From time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, the Company may comment on anticipated future financial performance. Such forward looking statements are subject to risks and uncertainties, including but not limited to buying patterns of Bell Operating Companies, the impact of new products introduced by competitors, higher than expected expenses related to sales and new marketing initiatives, changes in tax laws, particularly in regard to taxation of income of its subsidiary in Puerto Rico and other risks involving the telecommunications industry generally.

(7) Executive Officers of Registrant

The executive officers of the Company and their ages at March 1, 2000 were as follows:

Name	Age	Position (1)
Curtis A. Sampson	66	Chairman of the Board and Chief Executive Officer [1970]
C.S. (Sal) Mondelli	49	President and Chief Operating Officer 1999](2) President, Transition Networks, Inc. [1998](2)
Jeffrey K. Berg	57	President and General Manager, Suttle Apparatus Corporation [1990]
Paul N. Hanson	53	Vice President - Finance, Treasurer and Chief Financial Officer [1982]
Lee Ludlam	39	Managing Director, Austin Taylor Communications, Ltd. [1998] (3)
Thomas Lapping	41	President, JDL Technologies, Inc. [1998] (4)

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

2 Mr. Mondelli was appointed President of Transition Networks, Inc. in May, 1996. From November 1995 to May 1996 he served as Transition Networks' Vice President of Sales and Marketing. Prior to November 1995, he was an executive vice president of Prodea Software in Minneapolis. Transition Networks, Inc. was acquired by the Company in December 1998. In May 1999, Mr. Mondelli was

appointed President and Chief Operating Officer of Communications Systems, Inc.

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

4 The Company acquired JDL Technologies, Inc. in 1998.

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

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

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

ITEM 2. PROPERTIES

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

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

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

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

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

- JDL Technologies, Inc. leases a 4,000 square foot facility in Edina, Minnesota which houses its business operations.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

Not applicable.

PART II

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

(a) MARKET INFORMATION

The Company's common stock is currently traded in the National Market

System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ").

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

	1999		1998	
	High	Low	High	Low
First	$12.88	$ 9.50	$19.25	$15.25
Second	13.75	8.50	19.00	16.00
Third	14.75	10.50	16.00	10.88
Fourth	14.75	10.25	13.88	10.50

(b) HOLDERS

At March 1, 2000 there were approximately 860 holders of record of Communications Systems, Inc. common stock.

(c) DIVIDENDS

The Company has paid regular quarterly dividends since October 1, 1985. The per share quarterly dividends payable in fiscal 1998 and 1999 were as follows:

Jan 1, 1998 - April, 1998	$ .09
July 1, 1998 - Present	$ .10

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

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

	Year Ended December 31				
	1999	1998	1997	1996	1995
Selected Income Statement Data					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues From Continuing Operations	$116,933	$ 71,159	$ 75,732	$ 68,705	$ 66,004
Costs and Expenses:					
Cost of Sales	76,688	50,188	52,302	47,719	47,297
Selling, General and Administrative Expenses	28,907	12,413	10,947	10,581	8,519
Total Costs and Expenses	105,595	62,601	63,249	58,300	55,816
Operating Income From Continuing Operations	11,338	8,558	12,483	10,405	10,189
Other Income, Net	296	1,259	1,654	799	899
Income From Continuing Operations Before Income Taxes	11,634	9,817	14,137	11,204	11,088
Income Tax Expense	2,620	1,950	3,200	2,250	2,164
Income From Continuing Operations	9,014	7,867	10,937	8,954	8,924
Income (Loss) From Discontinued Operations, Net of Taxes					

				(721)	160
Net Income	$ 9,014	$ 7,867	$ 10,937	$ 8,233	$ 9,084
Basic Net Income (Loss) Per Common Share:					
Continuing Operations	$ 1.04	$ .87	$ 1.18	$ .97	$ .98
Discontinued Operations				(.08)	.02
Basic Net Income Per Share	$ 1.04	$ .87	$ 1.18	$ .89	$ 1.00
Diluted Net Income (Loss) Per Common Share					
Continuing Operations	$ 1.03	$ .87	$ 1.17	$ .96	$ .97
Discontinued Operations				(.08)	.02
Diluted Net Income Per Share	$ 1.03	$ .87	$ 1.17	$ .88	$ .99
Cash Dividends Per Share	$ .40	$ .38	$ .34	$ .30	$ .26
Average Common and Potential Common Shares Outstanding	8,727	9,084	9,325	9,352	9,217
Selected Balance Sheet Data					
Total Assets	$ 91,476	$ 83,900	$ 77,518	$ 67,596	$ 61,945
Property, Plant and Equipment, Net	10,960	11,379	9,675	8,965	8,658
Working Capital	34,387	37,245	48,514	35,906	29,039
Net Assets of Discontinued Operations				537	9,255
Stockholders' Equity	66,422	63,454	69,264	59,015	54,076

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

1999 Compared to 1998

Consolidated sales increased 64% to $116,933,000. Consolidated operating income increased 32% to $11,338,000. The majority of the Company's 1999 sales growth was generated by three strategic acquisitions that have positioned the Company in the broadband and high-speed networking markets. The Company acquired JDL Technologies, Inc. in August 1998; Transition Networks, Inc. in December 1998; and LANart Corporation in April 1999. LANart Corporation was subsequently merged into Transition Networks. These acquisitions generated 40% of the Company's consolidated sales in 1999. The balance of the revenue was comprised of sales of the Company's traditional voice communications products through the Suttle operations and Austin Taylor Communications, Ltd.

Suttle sales increased 5% to $58,398,000. Sales to customers in the United States (U.S.) increased 5% to $56,073,000. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies (RBOC's) and GTE) increased 7% to $35,526,000. Sales to these customers account for 63% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs) and electrical contractors increased $2,010,000 or 14%. Sales to retail customers decreased by $1,246,000 or 29%, due primarily by decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada increased by $305,000 or 15%.

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

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

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

The Company acquired JDL Technologies, Inc. ("JDL") in August 1998 and Transition Networks, Inc. ("TNI") in December 1998. JDL had sales of $1,681,000 in the last five months of 1998, and an operating loss of $675,000. JDL reported $11,141,000 in 1999 revenue with an operating loss of $283,000. TNI and LANart had combined revenues of $35,363,000 and an operating loss of $173,000. TNI had 1998 sales of $2,208,000 and an operating loss of $334,000 after its acquisition by the Company.

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

1998 Compared to 1997

Consolidated sales decreased 6% to $71,759,000. Consolidated operating income decreased 31% to $8,558,000.

Suttle sales decreased 11% to $55,540,000. Sales to customers in the United States (U.S.) decreased 10% to $53,426,000. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies (RBOCs) and GTE) decreased 13% to $33,245,000. Sales to these customers account for 62% of Suttle's U.S. customer sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased $155,000, or 1%. Sales to retail customers decreased $1,476,000 or 26% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales, including sales to Canada decreased 23% to $2,114,000 due to reduced exports of fiber-optic connector products and lower sales to Pacific Rim countries.

The sales decreases were across all of Suttle's product lines. CorroShield product sales fell 6% to $22,247,000 in 1998, the first year it failed to produce double-digit sales growth since its introduction. The decrease in CorroShield sales is due to changes in ordering patterns and inventory reduction programs at the RBOCs, which are CorroShield's major customers. CorroShield products are continuing to displace conventional voice connecting products, sales of which declined 12% in 1998. Sales of data products decreased 18% to $5,972,000. Sales of fiber-optic connector products decreased 18% to $3,336,000.

Suttle's gross margins declined 14% to $18,176,000. Gross margin percentage declined to 32.7% in 1998 from 33.8% in 1997. The decline in gross margin was due to costs associated with excess production capacity and provisions for inventory obsolescence due to slow-moving inventory. Selling, general and administrative expenses declined $886,000 or 10% due to lower selling and delivery expenses associated with lower sales volume. Suttle's operating income decreased $2,037,000 or 16%.

Austin Taylor's sales decreased 12% to $11,730,000. The decrease was due to reduced sales of cable television products caused by major reductions of cable television construction activity in the U.K. and below plan sales to Pacific Rim telephone companies. Austin Taylor's gross margin declined 21% to $1,835,000. Gross margin as a percentage of sales was 15.7% compared to 17.5% in 1997. The decline in gross margin was principally due to lower than expected business volume. Selling, general and administrative expenses increased $21,000. Operating income decreased $517,000 or 45%.

The Company acquired JDL Technologies, Inc. in August 1998 and Transition Networks, Inc. in December, 1998. While the Company expects both acquisitions to make positive contributions in future periods, neither had a positive impact in 1998. JDL had sales of $1,681,000 in the last five months of 1998, and an operating loss of $675,000. Government funding delays for new telecommunications infrastructure in the public schools negatively affected JDL's performance. TNI had sales of $2,208,000 and an operating loss of $334,000. TNI's performance was hurt by the lack of manufacturing margins on purchased inventory sold in December.

Consolidated investment income, net of interest expense, decreased $395,000 due to decreased levels of funds available for investment and interest on notes payable associated with acquisitions. Income from continuing operations before income taxes decreased $4,319,000 or 31%. The Company's effective income tax rate was 19.9% compared to 22.6% in 1997. The decrease in the tax rate was due to decreased earnings in the U.S. and U.K., where the Company pays a higher rate of tax than it does on earnings in Puerto Rico. Net income decreased $3,069,000 or 28%.

Acquisitions and Dispositions

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

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

Effective April 7, 1999, the Company acquired LANart Corporation, a manufacturer of applications specific integrated circuits (ASIC chips) located in Needham, Massachusetts, for approximately $4,700,000. The operations were subsequently merged with Transition Networks, Inc.

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

Effects of Inflation

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

European Currency

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

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

Liquidity and Capital Resources

At December 31, 1999, the Company had approximately $14,838,000 of cash and cash equivalents compared to $20,405,000 of cash and cash equivalents at December 31, 1998. The Company had working capital of approximately $34,387,000 and a current ratio of 2.4 to 1 compared to working capital of $37,245,000 and a current ratio of 2.8 to 1 at the end of 1998. The reduction in working capital was primarily due to use of short-term debt by the Company in making acquisitions and the investment of cash in long-term debt securities.

Cash flow provided by operations was approximately $11,222,000 in 1999 compared to $14,013,000 in 1998. The decrease was due to increased inventory and accounts receivable levels caused by the Company's increased levels of business.

Investing activities utilized $10,380,000 of cash in 1999. The company invested approximately $5,825,000 in the purchase of debt securities in 1999. Cash investments in new subsidiaries in 1999 and 1998 were $3,956,000 and $8,398,000 respectively. Cash investments in new plant and equipment totaled $2,226,000 in 1999. The Company expects to spend $3,000,000 on capital additions in 2000.

Net cash used in financing activities was $6,351,000. Dividends paid on common stock were $3,480,000. Proceeds from common stock issuances, principally exercises of key employee stock options, totaled $543,000 in 1999 and $804,000 in 1998. The Company purchased and retired 320,136 and 790,400 shares of its stock in open market transactions during 1999 and 1998 respectively. Board authorizations are outstanding to purchase 139,500 additional shares. The Company may purchase and retire additional shares in 2000 if warranted by market conditions and the Company's financial position.

The bulk of Suttle's operations are located in Puerto Rico. Until 1994, substantially all the earnings of these operations were sheltered from U.S. income tax due to the possessions tax credit (Internal Revenue Code Section 936). Under provisions of the Omnibus Budget Act of 1993, which went into effect beginning in the 1994 tax year, the amount of the possessions credit is limited to a percentage of the Company's Puerto Rico payroll and depreciation. U.S. income tax expense on the Company's earnings in Puerto Rico, after full utilization of the available tax credits, was $827,000, $556,000 and $791,000 in 1999, 1998 and 1997, respectively.

Under provisions of the Small Business Job Protection Act of 1996, the possessions tax credit was repealed for years after 1995. However, companies like CSI which currently qualify for the credit, may continue to claim the credit until 2005, subject to certain limitations. As of July 1, 1996, the credit no longer applies to investment income earned in Puerto Rico. The credit will continue to apply to business income earned in Puerto Rico through 2001. For the years 2002 to 2005, the amount of Puerto Rico business income eligible for the credit will be limited to an inflation-adjusted amount based on Puerto Rico business income earned from 1990 to 1994. The possessions tax credit has a materially favorable effect on the Company's income tax expense. Had the Company incurred income tax expense on Puerto Rico operations at the full U.S. rate, income tax expense would have increased by $2,023,000, $1,947,000 and $1,987,000 in 1999, 1998 and 1997, respectively.

At December 31, 1999 approximately $34,143,000, $7,626,000 and $1,607,000 of assets were invested in the Company's subsidiaries in Puerto Rico, the United Kingdom and Costa Rica, respectively. The Company expects to maintain these investments to support the continued operation of the subsidiaries. The Company uses the U.S. dollar as its functional currency in Costa Rica. The United Kingdom is a politically and economically stable country. Accordingly, the Company believes its risk of material loss due to adjustments in foreign currency markets to be small.

At December 31, 1999, the Company's outstanding obligations for notes payable totaled $9,043,000, consisting principally of borrowings against its line of credit used to purchase Transition Networks, Inc. The Company expects to repay or refinance this credit line in 2000. The unused portion of the Company's credit line ($1,097,000 at December 31, 1999) is available for use. In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

New Accounting Standards

In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 137, an amendment of SFAS No. 133, was issued in June of 1999 and defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company has not yet determined the impact of this pronouncement on its financial statements.

REPORT OF MANAGEMENT

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

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

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

/s/ Curtis A. Sampson

- ------------------------------------
Curtis A. Sampson
President and Chief Executive Officer

/s/ Paul N. Hanson

- ------------------------------------
Paul N. Hanson
Chief Financial Officer

March 28, 2000

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Communications Systems, Inc. and subsidiaries (the Company) as of December 31, 1999 and 1998 and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also include the financial statement schedule listed in the Index at Item 14. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

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Deloitte & Touche LLP
March 2, 2000
Minneapolis, Minnesota

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31	
	1999	1998
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 14,837,655	$ 20,405,363
Trade accounts receivable, less allowance for doubtful accounts of $908,000 and $884,000, respectively	21,125,610	14,624,123
Inventories (Note 2)	21,168,942	20,837,508
Other current assets	574,530	476,149
Deferred income taxes (Note 7)	1,735,000	1,348,000
TOTAL CURRENT ASSETS	59,441,737	57,691,143
PROPERTY, PLANT AND EQUIPMENT, net (Notes 1 and 3)	10,959,668	11,378,760
OTHER ASSETS:		
Excess of cost over net assets acquired (Note 1)	8,819,923	8,392,261
Investments in debt securities (Note 1)	6,078,365	1,340,312
Note receivable (Note 1)	3,365,390	3,765,390
Deferred income taxes (Note 7)	2,168,571	548,047
Other assets	642,399	783,799
TOTAL OTHER ASSETS	21,074,648	14,829,809
TOTAL ASSETS	$ 91,476,053	$ 83,899,712

LIABILITIES AND STOCKHOLDERS' EQUITY

	1999	1998
CURRENT LIABILITIES:		
Notes payable (Note 1)	$ 9,043,035	$ 9,077,598
Accounts payable	8,075,596	4,589,078
Accrued expenses	4,291,797	3,823,596
Dividends payable	855,087	879,130
Income taxes payable	2,788,746	2,076,658
TOTAL CURRENT LIABILITIES	25,054,261	20,446,060
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $1.00 per share; 3,000,000 shares authorized; none issued		
Common stock, par value $.05 per share; 30,000,000 shares authorized; 8,551,272 and 8,791,301 shares issued and outstanding, respectively (Notes 1 and 6)	427,564	439,565
Additional paid-in capital	25,302,306	25,250,914
Retained earnings	40,996,869	37,862,463
Stock option notes receivable (Note 6)	(288,225)	(288,225)
Cumulative other comprehensive income (loss) (Note 1)	(16,722)	188,935
TOTAL STOCKHOLDERS' EQUITY	66,421,792	63,453,652
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 91,476,053	$ 83,899,712

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

Year Ended December 31		
1999	1998	1997

<S>	<C>	<C>	<C>
REVENUES (Note 9):	$116,932,877	$ 71,158,743	$ 75,731,651
COSTS AND EXPENSES:			
Cost of sales	76,688,001	50,188,186	52,301,671
Selling, general and administrative expenses	28,907,288	12,412,361	10,947,163
	------------	------------	------
TOTAL COSTS AND EXPENSES	105,595,289	62,600,547	63,248,834
	------------	------------	------
OPERATING INCOME	11,337,588	8,558,196	12,482,817
OTHER INCOME (EXPENSE):			
Investment income	986,263	1,306,466	1,690,223
Interest expense	(690,129)	(47,237)	(36,167)
	------------	------------	------
OTHER INCOME, net	296,134	1,259,229	1,654,056
	------------	------------	------
INCOME BEFORE INCOME TAXES	11,633,722	9,817,425	14,136,873
INCOME TAX EXPENSE (Note 7)	2,620,000	1,950,000	3,200,000
	------------	------------	------
NET INCOME	9,013,722	7,867,425	10,936,873
	------------	------------	------
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	(153,981)	77,198	(137,738)
Unrealized holding loss on debt securities	(79,087)		
	------------	------------	------
OTHER COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	(233,068)	77,198	(137,738)
Income tax benefit related to unrealized loss on debt securities	27,411		
	------------	------------	------
	(205,657)	77,198	(137,738)
	------------	------------	------
COMPREHENSIVE INCOME	$ 8,808,065	$ 7,944,623	$ 10,799,135
	============	============	============
BASIC NET INCOME PER COMMON SHARE (Note 1)	$ 1.04	$ .87	$ 1.18
	============	============	============
DILUTED NET INCOME PER COMMON SHARE (Note 1)	$ 1.03	$ .87	$ 1.17
	============	============	============
AVERAGE BASIC SHARES OUTSTANDING	8,644,000	9,040,000	9,232,000
AVERAGE DILUTED SHARES OUTSTANDING	8,727,000	9,084,000	9,325,000

See notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Stock Option Notes Receivable	Cumulative Other Comprehensive Income (Loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1996	9,107,309	$ 455,365	$21,454,353	$36,856,285	$ -	$ 249,475	$59,015,478
Net income				10,936,873			0,936,873
Issuance of stock to Employee Stock Ownership Plan	20,870	1,044	298,956				300,000
Issuance of stock under Employee Stock Purchase Plan	16,622	831	182,843				183,674
Issuance of stock under Employee Stock Option Plan	181,851	9,093	2,045,715				2,054,808
Tax benefit from non qualified employee stock options			150,904				150,904
Shareholder dividends				(3,240,303)			(3,240,303)
Other comprehensive loss						(137,738)	(137,738)
BALANCE AT DECEMBER 31, 1997	9,326,652	466,333	24,132,771	44,552,855	-	111,737	69,263,696
Net income				7,867,425			7,867,425
Issuance of stock to acquire JDL Technologies, Inc.	158,005	7,900	2,204,170				2,212,070
Issuance of common stock under Employee Stock Purchase Plan	12,210	610	112,259				112,869
Issuance of stock under Employee Stock Option Plan	84,834	4,242	938,102				942,344
Tax benefit from non qualified employee stock options			37,017				37,017
Issuance of notes receivable for stock options, net					(288,225)		(288,225)
Purchase of stock	(790,400)	(39,520)	(2,173,405)	(11,052,325)			(13,265,250)
Shareholder dividends				(3,505,492)			(3,505,492)
Other comprehensive income						77,198	77,198
BALANCE AT DECEMBER 31, 1998	8,791,301	439,565	25,250,914	37,862,463	(288,225)	188,935	63,453,652
Net income				9,013,722			9,013,722
Issuance of common stock under Employee Stock Purchase Plan	27,431	1,372	266,766				268,138
Issuance of common stock to Employee Stock Ownership Plan	19,893	995	234,005				235,000
Issuance of stock under Employee Stock Option Plan	24,783	1,239	259,537				260,776
Stock issued as compensation	8,000	400	91,600				92,000

Stock option compensation			125,798				125,798
Tax benefit from non qualified employee stock options			13,754				13,754
Purchase of stock	(320,136)	(16,007)	(940,068)	(2,423,746)			(3,379,821)
Shareholder dividends				(3,455,570)			(3,455,570)
Other comprehensive loss						(205,657)	(205,657)
BALANCE AT DECEMBER 31, 1999	8,551,272	$ 427,564	$25,302,306	$40,996,869	$ (288,225)	$ (16,722)	$66,421,792

See notes to consolidated financial statements.

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

	Year Ended December 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	$ 9,013,722	$ 7,867,425	$10,936,873
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	4,801,290	3,085,533	2,471,510
Deferred taxes	(816,225)	(702,323)	702,713
Loss on liquidation of foreign subsidiary			73,696
Changes in assets and liabilities net of effects from acquisitions:			
Decrease (increase) in accounts receivable	(4,744,476)	2,651,591	(1,966,519)
Decrease (increase) in inventory	693,624	1,073,699	(4,634,744)
Decrease (increase) in other current assets	(99,920)	1,045,802	(137,547)
Increase (decrease) in accounts payable	2,241,620	(1,114,838)	(328,639)
Increase (decrease) in accrued expenses	(581,638)	(353,930)	727,787
Increase (decrease) in income taxes payable	713,595	459,438	(300,273)
Net cash provided by operating activities	11,221,592	14,012,397	7,544,857
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,226,103)	(3,351,927)	(2,878,073)
Maturities of debt securities	1,008,607	2,039,656	1,131,366
Purchases of debt securities	(5,825,747)		
Sales (purchase) of U.S. Treasury bill investments		5,249,314	(5,249,314)
Increase (decrease) in other assets	219,507	(617,433)	64,293
Cash receipts from collection of note receivable	400,000	492,377	308,830
Changes in assets and liabilities of discontinued operations			267,679
Payment for purchase of subsidiaries, net of cash acquired	(3,955,898)	(8,397,852)	(79,947)
Net cash used in investing activities	(10,379,634)	(4,585,865)	(6,435,166)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes payable and long-term debt	(1,131,484)		
Increase in notes payable	1,096,921	8,900,364	
Dividends paid	(3,479,613)	(3,465,761)	(3,129,489)
Proceeds from issuance of stock	542,668	804,005	2,238,482
Purchase of stock	(3,379,821)	(13,265,250)	
Net cash used in financing activities	(6,351,329)	(7,026,642)	(891,007)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(58,337)	63,158	(75,767)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,567,708)	2,463,048	142,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,405,363	17,942,315	17,799,398
CASH AND CASH EQUIVALENTS AT END OF YEAR	$14,837,655	$20,405,363	$17,942,315

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	$ 1,850,564	$ 2,152,133	$ 2,797,237
Interest paid	714,871	10,727	13,723

See notes to consolidated financial statements.

</TABLE>

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 1999, 1998 and 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Financial instruments: The fair value of the Company's accounts receivable, accounts payable and notes payable approximate their carrying value due to their short-term nature. The fair value of the Company's investment in debt securities is based on quoted market prices.

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

Accounts receivable from Hector Communications Corporation: The Company provides services for Hector Communications Corporation ("HCC"), a former subsidiary of the Company. Several of the Company's officers and directors work in similar capacities for HCC. Outstanding receivable balances from HCC were $428,000 and $645,000 at December 31, 1999 and 1998, respectively. Accounts with HCC are handled on an open account basis.

Property, plant and equipment: Property, plant and equipment are recorded at cost. Depreciation is computed using principally the straight-line method. Depreciation included in costs and expenses was $2,827,709, $2,444,192 and $2,086,366 for 1999, 1998 and 1997, respectively. Maintenance and repairs are charged to operations and additions or improvements are capitalized. Items of property sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses on disposal are reflected in operations.

Excess of cost over net assets acquired: The excess of cost over net assets of subsidiaries acquired in purchase transactions is being amortized on the straight-line method over periods of from 5 to 15 years. Amortization included in costs and expenses was $1,973,581, $641,341 and $385,144 in 1999, 1998 and 1997, respectively.

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

Recoverability of long-lived assets: The company reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. Should the sum of the expected future net cash flows be less than the carrying value, the Company would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset based on market value that is based on the discounted cash flows expected to be generated by the asset. At December 31, 1999 and 1998, no impairment loss provision is required or recorded in the consolidated financial statements.

Investment in debt securities: The Company's Puerto Rico subsidiary owns a portfolio of AAA rated mortgage-backed securities it is holding to maturity. At December 31, 1999, the amortized cost basis of the securities was $308,000, which approximates market value. The subsidiary also holds an investment in Federal Home Loan Bank bonds, which are available for sale. Market value of the securities was $5,770,000 including a gross unrealized holding loss of $79,000 ($52,000 net of taxes), which is reflected in the consolidated financial statements as a reduction of stockholder's equity.

Notes payable: The Company has a $10,000,000 line of credit from U.S. Bank. Outstanding borrowings against the line of credit at December 31, 1999 and 1998 were $8,903,000. The Company utilized those funds in the acquisition of Transition Networks, Inc. Interest on borrowings on the credit line is at the bank's average CD rate plus 1.5% (6.41% at December 31, 1999). The credit line matures June 30, 2000.

Foreign currency translation: Assets and liabilities denominated in foreign currencies were translated into U.S. dollars at year-end exchange rates. Revenue and expense transactions were translated using average exchange rates.

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 82,923 shares, 44,261 shares, and 92,583 shares in 1999, 1998 and 1997, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method.

New accounting principles: In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No.133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 137, an amendment of SFAS No. 133, was issued in June 1999 and defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company has not yet determined the impact of this pronouncement on its financial statements.

Basis of presentation: Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 financial statement presentation. These reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2 - INVENTORIES

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

	December 31	
	1999	1998
Finished goods	$ 7,418,810	$ 8,450,447
Raw and processed materials	13,750,132	12,387,061
	$ 21,168,942	$ 20,837,508

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

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

	Estimated useful life	December 31 1999	1998
Land		$ 305,519	$ 309,939
Buildings	7-30 years	3,105,474	3,091,289
Machinery and equipment	3-15 years	25,690,309	24,550,064
Furniture and fixtures	5-10 years	3,045,826	2,702,890
		32,147,128	30,654,182

Less accumulated depreciation	21,187,460	19,275,422
	$ 10,959,668	$ 11,378,760

NOTE 4 - EMPLOYEE BENEFIT PLANS

The Company has an Employee Savings Plan (401(k)) and matches a percentage of employee contributions up to six percent of compensation. Contributions to the plan in 1999, 1998 and 1997 were $275,000, $93,000, and $89,000 respectively.

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

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company leases land, buildings and equipment under operating leases with original terms from one to ten years. Certain of these leases contain renewal and purchase options. Rent expense charged to operations was $885,000, $590,000 and $640,000 in 1999, 1998 and 1997 respectively. At December 31, 1999, the Company was obligated under noncancellable operating leases to make minimum annual future lease payments as follows:

Year Ending December 31:	
2000	$ 600,618
2001	543,315
2002	466,158
2003	360,960
2004	164,140
	$ 2,135,191

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

NOTE 6 - COMMON STOCK AND STOCK OPTIONS

Common shares are reserved in connection with the Company's 1992 stock plan under which 1,900,000 shares of common stock may be issued pursuant to stock options, stock appreciation rights, restricted stock or deferred stock granted to officers and key employees. Exercise prices of stock options under the plan cannot be less than fair market value of the stock on the date of grant. Rules and conditions governing awards of stock options, stock appreciation rights and restricted or deferred stock are determined by the Compensation Committee of the Board of Directors, subject to certain limitations incorporated into the plan. At December 31, 1999, 446,146 shares remained available to be issued under the plan. Options expire five years from date of grant with one third of the options vesting immediately, the remaining two thirds vesting equally over the next two years.

Common shares are also reserved for issuance in connection with a nonqualified stock option plan under which up to 200,000 shares may be issued to nonemployee directors. The plan provides for the automatic grant of nonqualified options for 3,000 shares of common stock annually to each nonemployee director concurrent with the annual stockholders' meeting. Exercise price will be the fair market value of the stock at the date of grant. Options granted under this plan vest when issued and expire ten years from date of grant. At December 31, 1999, 44,000 shares are available to be issued under the plan.

The Company issued 8,000 common shares of stock to JDL Technologies employees as compensation for services during 1999. Compensation expense recorded was $92,000. Under provisions of the Company's agreement to purchase JDL Technologies, an additional 8,000 shares will be issued to JDL Technologies employees for services performed in 2000, valued at market price on the date of the issuance.

The Company awarded 240,000 incentive stock options to employees of Transition Networks, Inc in March 1999. These options are vested based on the attainment of TNI's annual revenue and operating income targets from 1999 to 2004. On the measurement date of December 31, 1999, 44,736 incentive stock options were vested in the accounts of eligible employees. The Company recorded compensation expense of $125,798 in 1999 in connection with these options. Compensation expense is based on the difference between the exercise price of $10.18 and the market price at the measurement date which was $13.00.

Changes in outstanding employee and director stock options during the three years ended December 31, 1999 were as follows:

	Number of shares	Weighted average exercise price per share
Outstanding at December 31, 1996	541,689	$ 12.38
Granted	197,700	13.82
Exercised	(181,851)	11.30
Canceled	(32,266)	14.04
Outstanding at December 31, 1997	525,272	13.19
Granted	224,550	17.46
Exercised	(84,834)	11.11
Canceled	(5,800)	15.07
Outstanding at December 31, 1998	659,188	14.89
Granted	622,204	10.27
Exercised	(24,783)	10.52
Canceled	(99,617)	12.98
Outstanding at December 31, 1999	1,156,992	12.66

At December 31, 1999, 660,942 stock options are currently exercisable. The following table summarizes the status of Communications Systems, Inc. stock options outstanding at December 31, 1999:

Range of Exercise Prices	Shares	Weighted Average Remaining Option Life	Weighted Average Exercise Price
$ 5.31 to $ 9.99	44,000	3.2 years	$ 8.09
$10.00 to $12.00	554,804	5.1 years	10.22
$12.01 to $14.99	295,238	2.4 years	13.98
$15.00 to $18.91	262,950	3.6 years	17.12

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

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

PRO FORMA FINANCIAL INFORMATION

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

	Year Ended December 31		
	1999	1998	1997
Net Income	$ 8,035,603	$ 7,061,627	$10,254,975
Basic Net Income Per Share	$ .93	$ .78	$ 1.11
Diluted Net Income Per Share	$ .92	$ .78	$ 1.10

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

	Year Ended December 31		
	1999	1998	1997
Expected volatility	27%	26%	25%
Risk free interest rate	5.2%	5.7%	6.2%
Expected holding period - employees	4 years	4 years	4 years
Expected holding period - directors	7 years	7 years	7 years
Dividend yield	3.9%	2.4%	2.6%

Pro forma stock-based compensation cost was $978,000, $806,000 and $682,000 in 1999, 1998 and 1997, respectively. The fair value of all options issued in 1999, 1998 and 1997 was $1,402,000, $971,000 and $690,000, respectively.

EMPLOYEE STOCK PURCHASE PLAN

The Company maintains an Employee Stock Purchase Plan for which 300,000 common shares have been reserved. Under the terms of the plan, employees may acquire shares of common stock, subject to limitations, through payroll deductions at 85% of the lower of fair market value for such shares on one of two specified dates in each plan year. Shares issued to employees under the plan were 27,431, 12,210 and 16,622 for the plan years ended August 31, 1999, 1998 and 1997, respectively. At December 31, 1999 employees had subscribed to purchase an additional 38,546 shares in the current plan year ending August 31, 2000.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

All eligible employees of the Company participate in the ESOP after completing one year of service. Contributions are allocated to each participant based on compensation and vest 30% after three years of service and incrementally thereafter, with full vesting after seven years. At December 31, 1999, the ESOP held 309,172 shares of the Company's common stock, all of which has been allocated to the accounts of eligible employees. Contributions to the plan are determined by the Board of Directors and can be made in cash or shares of the Company's stock. The Company's 1997 ESOP contribution was $350,000 of cash. The Company's 1998 ESOP contribution was $235,000 for which the Company issued 19,893 shares of common stock to the ESOP in February 1999. The 1999 ESOP contribution was $308,000 for which the Company issued 23,692 shares in February 2000.

PURCHASES OF COMMUNICATIONS SYSTEMS, INC. COMMON STOCK

The Company's Board of Directors has authorized the purchase and retirement, from time to time, of shares of the Company's stock on the open market, or in private transactions consistent with overall market and financial conditions. In 1999, the Company purchased and retired 320,136 shares at a cost of $3,380,000. In 1998, the Company purchased and retired 790,400 shares at a cost of $13,265,000. At December 31, 1999, 139,500 shares could be repurchased under outstanding Board authorizations.

NOTE 7 - INCOME TAXES

Income tax expense from continuing operations consists of the following:

	Year Ended December 31		
	1999	1998	1997
Currently payable income taxes:			
Federal	$ 2,070,000	$ 1,644,000	$ 1,049,000
State	217,000	110,000	168,000
Puerto Rico	844,000	767,000	826,000
Foreign	305,000	131,000	454,000
	3,436,000	2,652,000	2,497,000
Deferred income taxes (benefit)	(816,000)	(702,000)	703,000
	$ 2,620,000	$ 1,950,000	$ 3,200,000

A subsidiary, Suttle Caribe, Inc., operates in Puerto Rico, and is qualified under Internal Revenue Service Code section 936 for credit against U.S. income taxes. Under provisions of the Omnibus Budget Reconciliation Act of 1993, Congress set limits on the section 936 credit that went into effect for the 1994-tax year. As a result of the tax credit limitation, the Company incurred $827,000, $556,000 and $791,000 of U.S. federal income tax expense on earnings in Puerto Rico for 1999, 1998 and 1997, respectively.

Earnings of Suttle Caribe, Inc. are 90% exempt from Puerto Rico income taxes through 2003, subject to satisfaction of the employment and investment requirements of the tax exemption grant received by the Company. Distributions by Suttle Caribe, Inc. to the parent company are subject to a tollgate tax at rates which, depending on various factors, range from 3.5% to 10%. The Company has provided for and prepaid tollgate taxes at a 1.75% rate on its Puerto Rico earnings for each year since 1993. The Company has recognized tollgate tax expense at the 3.5% rate on earnings from years prior to 1993 only to the extent distributions were received from Suttle Caribe, Inc. The cumulative amount of undistributed prior earnings on which no tollgate tax has been recognized was approximately $10,004,000 at December 31, 1999.

Austin Taylor Communications, Ltd. operates in the U.K. and is subject to U.K. rather than U.S. income taxes. U.K. pretax income was $878,000, $915,000, and $1,343,000 in 1999, 1998 and 1997, respectively. Suttle Costa Rica, S.A. operates in Costa Rica and is currently exempt from Costa Rica income taxes. Accumulated earnings in Costa Rica on which no U.S. income tax has been accrued was $1,817,000 at December 31, 1999. It is the Company's intention to reinvest the remaining undistributed earnings of its Puerto Rico, U.K. and Costa Rica subsidiaries to support the continued operation of those subsidiaries.

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

	Year Ended December 31		
	1999	1998	1997
Tax at U.S. statutory rate	35.0%	35.0%	35.0%
Surtax exemption	(.9)	(1.0)	(.7)
U.S. taxes not provided on Puerto Rico operations	(17.4)	(19.8)	(14.1)
State income taxes, net of federal benefit	1.8	.7	.8
Other	4.0	5.0	1.6
Effective tax rate	22.5%	19.9%	22.6%

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

	1999	1998
Current assets:		
Bad debts	$ 258,000	$ 264,000
Inventory	938,000	617,000
Accrued expenses	539,000	470,000
Other		(3,000)
	$ 1,735,000	$ 1,348,000
Long term assets and (liabilities):		
Depreciation	$ (393,429)	$ (382,953)
Net operating loss carryforward	1,110,000	
Loss reserves on notes receivable	151,000	132,000
Excess of cost over net assets	203,000	16,000
Other	26,000	
Alternative minimum tax credits	1,072,000	783,000
	$ 2,168,571	$ 548,047

As part of the LANart acquisition, the Company purchased net operating loss carryforwards in the amount of $1,161,000. At December 31, 1999, the Company has $1,110,000 available net operating loss carryforwards for income tax purposes, which expire in 2014. The Company also has alternative minimum tax carryforwards of approximately $1,072,000 at December 31, 1999, which are available to reduce future regular income taxes over an indefinite period.

NOTE 8 - ACQUISITIONS

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

Property, plant and equipment	$ 708,804
Excess of cost over net assets acquired	4,046,565
Accounts receivable	3,262,689
Inventory	3,198,942
Cash	550,049
Accounts payable	(1,973,236)

Accrued expenses	(643,263)
Other assets and liabilities	(93,786)
Total purchase price	9,056,764
Less cash acquired	(550,049)
Payment for purchase of Transition Networks, Inc., net of cash acquired	$ 8,506,715

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

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

Effective April 7, 1999, the Company purchased all the capital stock of LANart Corporation, a designer and manufacturer of application specific integrated circuits (ASIC chips) located in Needham, Massachusetts, for $3,956,000, net of cash acquired. The operations of LANart Corporation, which were not material to the Company's financial statements, have been included in consolidated operations as of the purchase date. The fair value of assets acquired in the transaction was $4,764,000 (including excess of cost over net assets acquired of $2,361,000) and liabilities of $2,805,000 were assumed as follows:

Property, plant and equipment	$ 242,192
Excess of cost over net assets acquired	2,361,179
Accounts receivable	1,801,359
Inventory	1,075,871
Deferred tax benefits	1,161,408
Cash	808,265
Accounts payable	(1,285,761)
Accrued expenses	(1,519,296)
Other assets and liabilities	118,946
Total purchase price	4,464,163
Less cash acquired	(808,265)
Payment for purchase of LANart, Inc., net of cash acquired	$ 3,955,898

NOTE 9 - INFORMATION CONCERNING INDUSTRY SEGMENTS AND MAJOR CUSTOMERS

The Company classifies its businesses into four segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks, which designs and markets data transmission and computer network products; and JDL Technologies. (JDL), that 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.

Suttle products are sold principally to United States (U.S.) customers. Suttle operates manufacturing facilities in the U.S. (including Puerto Rico) and Costa Rica. Austin Taylor operates in the United Kingdom (U.K.). Transition Networks manufactures its products in the United States and makes sales in both the U.S. and U.K. markets. JDL Technologies operates in the U.S. and makes sales in the U.S. and Latin America.

In 1999, no customer accounted for more than 10% of consolidated sales. In 1998, sales to three U.S. customers amounted to 13.6%, 10.4% and 10.3% of consolidated revenues, respectively. In 1997, sales to two U.S. customers amounted to 17.6% and 10.0% of consolidated revenues, respectively.Export sales were less than 10%

of consolidated revenues in each of the last three years. At December 31, 1999, foreign earnings in excess of amounts received in the United States were approximately $5,739,000.

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

Information concerning the Company's operations in the various segments is as follows:

<TABLE>
<CAPTION>

	Suttle	Austin Taylor	Transition Networks	JDL Technologies	Corporate	Consolidated
Year Ended December 31, 1999:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	$58,398,319	$12,031,318	$35,362,659	$11,140,581	$ -	$116,932,877
Cost of sales	37,539,492	10,010,373	21,144,442	7,993,694		76,688,001
Gross profit	20,858,827	2,020,945	14,218,217	3,146,887		40,244,876
Selling, general and administrative expenses	8,042,164	1,237,122	14,391,632	3,430,327	1,806,043	28,907,288
Operating income (loss$	12,816,663	$ 783,823	$ (173,415)	$ (283,440)	$(1,806,043)	$ 11,337,588
Depreciation and amort$zation$	$ 2,068,839	$ 709,992	$ 1,367,536	$ 494,023	$ 160,900	$ 4,801,290
Assets	$51,004,622	$ 7,751,465	$17,511,819	$ 6,639,227	$ 8,568,920	$ 91,476,053
Capital expenditures	$ 1,345,535	$ 675,074	$ 8,293	$ 95,890	$ 61,311	$ 2,226,103
Year Ended December 31, 1998:						
Revenues	$55,539,979	$11,729,725	$ 2,208,295	$ 1,680,744	$ -	$ 71,158,743
Cost of sales	37,363,994	9,894,546	1,701,222	1,228,424		50,188,186
Gross profit	18,175,985	1,835,179	507,073	452,320		20,970,557
Selling, general and administrative expenses	7,861,420	1,213,987	841,360	1,127,669	1,367,925	12,412,361
Operating income (loss)	$10,314,565	$ 621,192	$ (334,287)	$ 675,349)	$(1,367,925)	$ 8,558,196
Depreciation and amortization	$ 1,957,261	$ 692,453	$ 96,756	$ 12,134	$ 326,929	$ 3,085,533
Assets	$53,130,454	$ 7,091,218	$ 11,731,323	$ 3,634,012	$ 8,312,705	$ 83,899,712
Capital expenditures	$ 2,269,177	$ 935,603	$ 15,294	$ 22,427	$ 109,426	$ 3,351,927
Year Ended December 31, 1997:						
Revenues	$62,415,513	$13,316,138			$ -	$ 75,731,651
Cost of sales	41,316,252	10,985,419				52,301,671
Gross profit	21,099,261	2,330,719				23,429,980
Selling, general and administrative expenses	8,747,540	1,192,648			$ 1,006,975	10,947,163
Operating income (loss)	$12,351,721	$ 1,138,071			$(1,006,975)	$ 12,482,817
Depreciation and amortization	$ 1,744,554	$ 599,982			$ 126,974	$ 2,471,510
Assets	$54,740,837	$ 9,150,276			$13,626,815	$ 77,517,928
Capital expenditures	$ 2,553,360	$ 265,340			$ 59,373	$ 2,878,073

===
</TABLE>

(b) SUPPLEMENTAL FINANCIAL INFORMATION

Unaudited Quarterly Operating Results

(in thousands except per share amounts)

	Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
1999				
Revenues	$26,598	$29,807	$29,278	$31,250
Gross Margins	9,036	9,901	10,135	11,173
Operating income	3,262	2,078	2,592	3,406
Net Income	2,473	1,748	2,101	2,692
Basic Net Income per Share	$ .29	$ .20	$ .24	$ .31
Diluted Net Income per Share	$ .28	$ .20	$ .24	$ .31
1998				
Revenues	$17,486	$16,970	$18,030	$18,673
Gross Margins	5,244	5,350	5,203	5,174
Operating income	2,286	2,715	2,363	1,195
Net Income	2,194	2,442	1,952	1,279
Basic Net Income per Share	$ .24	$ .27	$ .22	$ .15
Diluted Net Income per Share	$ .23	$ .27	$ .22	$ .15

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by paragraphs [a], [c], [d], [e], and [f] of Item 401 under Regulation S-K, to the extent applicable, will be set forth under the caption "Election of Directors" in the Company's definitive proxy material for its May 18, 2000 Annual Meeting of Shareholders to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated by reference herein. The information called for by paragraph [b] of Item 401 is set forth under Item 1[c] herein. The information called for by Item 405 under Regulation S-K, to the extent applicable, will be set forth under the caption "Certain Transactions" in the Company's above referenced definitive proxy material.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 402 under Regulation S-K to the extent applicable, will be set forth under the caption "Executive Compensation" in the Company's definitive proxy materials for its May 18, 2000 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 403 under Regulation S-K will be set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Election of Directors" in the Company's definitive proxy materials for its May 18, 2000 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 404 under Regulation S-K will be set forth under the caption "Certain Transactions" in the Company's definitive proxy materials for its May 18, 2000 Annual Meeting to be filed within 120 days from the end of the Registrant's fiscal year, which information is expressly incorporated herein by reference.

PART IV

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

(a) (1) Consolidated Financial Statements

The following Consolidated Financial Statements of Communications Systems, Inc. and subsidiaries appear at pages 15 to 29 herein:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 1999 and 1998

Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 1999, 1998 and 1997

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1999, 1998 and 1997

Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997

Notes to Consolidated Financial Statements

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

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

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

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

(a) (3) Exhibits

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

(b) REPORTS ON FORM 8-K FILED DURING THE THREE MONTHS ENDED DECEMBER 31, 1999

Not Applicable.

SIGNATURES

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

COMMUNICATIONS SYSTEMS, INC.

Dated: March 28, 2000

/s/ Curtis A.Sampson

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

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

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

Signature	Title	Date
/s/Curtis A.Sampson Curtis A. Sampson	Chairman of the Board of Directors, President, and Director (Principal Executive Officer)	March 28, 2000
/s/Paul N. Hanson Paul N. Hanson	Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 28, 2000
/s/Paul J. Anderson Paul J. Anderson	Director	March 28, 2000
/s/Edwin C. Freeman Edwin C. Freeman	Director	March 28, 2000
/s/Luella Gross Goldberg Luella Gross Goldberg	Director	March 28, 2000
/s/Frederick M. Green Frederick M. Green	Director	March 28, 2000
/s/Randall D. Sampson Randall D. Sampson	Director	March 28, 2000
/s/Joseph W. Parris Joseph W. Parris	Director	March 28, 2000
/s/Gerald D. Pint Gerald D. Pint	Director	March 28, 2000
/s/Wayne E. Sampson Wayne E. Sampson	Director	March 28, 2000
/s/Edward E. Strickland Edward E. Strickland	Director	March 28, 2000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 1999

FINANCIAL STATEMENT SCHEDULE

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<TABLE>
<CAPTION>

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Schedule II - Valuation and Qualifying Accounts and Reserves

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Additions Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Allowance for doubtful accounts:					
Year ended:					
<S>	<C>	<C>	<C>	<C>	<C>
December 31, 1999	$ 884,000	$ 126,000		$ 102,000(B)	$ 908,000
December 31, 1998	$ 796,000	$ 94,000		$ 6,000(B)	$ 884,000
December 31, 1997	$ 306,000	$ 50,000	$ 441,000(A)	$ 1,000(B)	$ 796,000
Reserve for assets transferred under contractual arrangements and notes receivable:					
Year Ended:					
December 31, 1999	$ 371,000	$ 63,000			$ 434,000
December 31, 1998	$ 371,000				$ 371,000
December 31, 1997	$ 358,000		$ 13,000(C)		$ 371,000

- --
(A) Reclassification of allowance for doubtful accounts related to net assets of discontinued operations. (B) Accounts determined to be uncollectible and charged off against reserve. (C) Interest on notes receivable credited to valuation reserve.

</TABLE>

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OF

COMMUNICATIONS SYSTEMS, INC.

FOR

YEAR ENDED DECEMBER 31, 1999

EXHIBITS

COMMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
Exhibit Index To
Form 10-K for the Year Ended December 31, 1999

Regulation S-K Exhibit Table Reference	Title of Document	Location in Consecutive Numbering System as Filed With the Securities and Exchange Commission
3.1	Articles of Incorporation, as amended	Filed as Exhibit 3.1 to the Form 10-K of the Company for its year ended December 31, 1989 (the "1989 Form 10-K") and incorporated herein by reference.
3.2	Bylaws, as amended	Filed as Exhibit 3.2 to the 1989 Form 10-K and incorporated herein by reference.
10.1	1987 Stock Plan	Filed as Exhibit 10.1 to the Form 10-K Report of the Company for its year ended December 31, 1993 (the "1993 Form 10-K") and incorporated herein by reference.
10.2	Employee Savings Plan	Filed as Exhibit 10.2 to the 1993 Form 10-K and incorporated herein by reference.
10.3	Employee Stock Ownership Plan	Filed as Exhibit 10.3 to the 1993 Form 10-K and incorporated herein by reference.
10.4		Employee Stock Purchase Plan Filed as Exhibit 10.4 to the 1993 Form 10-K and incorporated herein by reference.
10.5	Stock Option Plan for Nonemployee Directors	Filed as Exhibit 10.5 to the 1993 Form 10-K and incorporated herein by reference.
10.6	1992 Stock Plan	Filed as Exhibit 10.6 to the 1993 Form 10-K and incorporated herein by reference.
10.7	Flexible Benefit Plan	Filed as Exhibit 10.7 to the 1993 Form 10-K and incorporated herein by reference.
10.8	Supplemental Executive Retirement Plan	Filed as Exhibit 10.8 to the 1993 Form 10-K and incorporated herein by reference.
10.9	Form of Rights Agreement, dated as of October 26, 1999 between the Company and Norwest Bank Minnesota, National Association	Filed as Exhibit 1 to the Company's Form 8-A on November 8, 1999 and incorporated herein by reference.
21	Subsidiaries of the Registrant	Filed herewith at page 37.
23	Independent Auditors' Consent	Filed herewith at page 38.
24	Power of Attorney	Included in signatures at page 32.

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

SUBSIDIARIES OF COMMUNICATIONS SYSTEMS, INC.

EXHIBIT 21

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

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

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-28486, 33-39862, 33-39864, 33-60930, 33-83662, 33-99564, 33-99566 and 333-92063 of Communications Systems, Inc. of our report dated March 2, 2000 on the consolidated financial statements and schedule of Communications Systems, Inc. and subsidiaries appearing in this Annual Report on Form 10-K of Communications Systems, Inc. for the year ended December 31, 1999.

/s/ Deloitte & Touche LLP

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Deloitte & Touche LLP
March 28, 2000
Minneapolis, Minnesota

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