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

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 1999

OR

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

For the transition period from to

Commission File Number: 0-10355

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

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

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

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

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

CLASS	Outstanding at October 31, 1999
Common Stock, par value $.05 per share	8,548,772

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

Assets:	September 30 1999	December 31 1998
Current assets:		
<S>	<C>	<C>
Cash	$ 15,479,792	$ 20,405,363
Receivables, net	19,989,023	14,624,123
Inventories (Note 4)	19,255,948	20,837,508
Deferred income taxes	1,348,000	1,348,000
Other current assets	880,975	499,549
Total current assets	56,953,738	57,714,543
Property, plant and equipment	31,913,634	30,654,182
less accumulated depreciation	(21,025,691)	(19,275,422)
Net property, plant and equipment	10,887,943	11,378,760
Other assets:		
Excess of cost over net assets acquired	10,345,789	8,392,261
Investments in mortgage backed and other securities	6,197,483	1,316,912
Deferred income taxes	548,753	548,047
Notes receivable from sale of assets of discontinued operations	3,565,390	3,765,390
Other assets	693,623	783,799
Total other assets	21,351,038	14,806,409
Total Assets	$ 89,192,719	$ 83,899,712
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$ 9,898,951	$ 9,077,598
Accounts payable	6,801,218	4,589,078
Accrued expenses	4,897,352	3,823,596
Dividends payable	858,424	879,130
Income taxes payable	2,081,752	2,076,658
Total current liabilities	24,537,697	20,446,060
Stockholders' Equity	64,655,022	63,453,652
Total Liabilities and Stockholders' Equity	$ 89,192,719	$ 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
(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Sales	$ 29,278,686	$ 18,029,530	$ 85,682,922	$ 52,485,367
Costs and expenses:				

Cost of sales	19,143,527	12,826,725	56,610,922	36,688,322
Selling, general and administrative expenses	7,543,603	2,840,180	21,140,877	8,433,891
Total costs and expenses	26,687,130	15,666,905	77,751,799	45,122,213
Operating income	2,591,556	2,362,625	7,931,123	7,363,154
Other income and (expenses):				
Investment income	299,309	330,402	721,069	1,118,636
Interest expense	(189,368)	(1,278)	(510,546)	(3,803)
Other income, net	109,941	329,124	210,523	1,114,833
Income before income taxes	2,701,497	2,691,749	8,141,646	8,477,987
Income taxes (Note 5)	600,000	740,000	1,820,000	1,890,000
Net income	2,101,497	1,951,749	6,321,646	6,587,987
Other comprehensive income - Foreign currency translation adjustment	194,768	122,723	(130,889)	193,798
Comprehensive income	$ 2,296,265	$ 2,074,472	$ 6,190,757	$ 6,781,785
Basic net income per share	$ .24	$ .22	$ .73	$ .72
Diluted net income per share	$ .24	$ .22	$ .72	$ .72
Average Basic Shares Outstanding	8,603,260	8,942,618	8,675,949	9,123,609
Average Dilutive Shares Outstanding	8,723,100	8,960,993	8,760,734	9,191,146

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in	Retaine	Stock Option Notes	Other Comprehensive	
	Shares	Amount	Capital	Earnings	Receivable	Income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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)
Foreign currency translation adjustment						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				6,321,646			6,321,646
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 common stock under Employee Stock Option Plan	5,300	265	53,069				53,334
Stock issued as compensation to employees	8,000	400	124,262				124,662
Purchase of stock	(309,536)	(15,477)	(908,885)	(2,328,775)			(3,253,137)
Shareholder dividends				(2,600,483)			(2,600,483)
Foreign currency translation adjustment						(130,889)	(130,889)
BALANCE AT SEPTEMBER 30, 1999	8,559,372	$ 427,969	$ 25,202,381	$ 39,254,851	$ (288,225)	$ 58,046	$ 64,655,022

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

	Nine Months Ended September 30	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 6,321,646	$ 6,587,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,918,252	2,113,980
Stock-based compensation expense	124,662	
Changes in assets and liabilities net of effects from acquisition of LANart Corporation:		
Decrease (increase) in accounts receivable	(3,562,131)	803,466
Decrease (increase) in inventory	2,641,030	(1,159,803)
Decrease (increase) in other current assets	(263,933)	1,056,843
Increase (decrease) in accounts payable	938,680	(769,412)
Increase (decrease) in accrued expenses	(297,139)	143,855
Increase in income taxes payable	2,311	480,000
Net cash provided by operating activities	9,823,378	9,256,916
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,616,608)	(2,619,135)
Maturities of mortgage-backed and other investment securities	744,429	1,044,213
Purchases of investment securities	(5,625,000)	
Decrease (increase) in other assets	72,652	(536,913)
Collection of notes receivable	200,000	200,000
Proceeds from maturities of U.S. Treasury securities		5,249,314
Payment for purchase of LANart Corporation, net of cash acquired	(3,955,898)	
Payment for purchase of JDL Technologies, Inc.		(32,260)
Net cash (used in) provided by investing activities	(10,180,425)	3,305,219
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(275,568)	
Proceeds from issuance of notes payable	1,096,921	
Dividends paid	(2,621,189)	(2,576,252)
Proceeds from issuance of common stock	504,571	766,988
Purchase of stock	(3,253,137)	(12,199,670)
Net cash used in financing activities	(4,548,402)	(14,008,934)

EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(20,122)	97,342
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,925,571)	(1,349,457)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,405,363	17,942,315
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,479,792	$ 16,592,858
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 1,814,143	$ 1,400,130
Interest paid	515,351	3,803

See notes to consolidated financial statements.

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of changes in stockholders' equity as of September 30, 1999, the statements of income and comprehensive income for the three and nine month periods ended September 30, 1999 and 1998 and the statements of cash flows for the nine-month periods ended September 30, 1999 and 1998 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 1999 and 1998 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1998 Annual Report to Shareholders. The results of operations for the periods ended September 30 are not necessarily indicative of the operating results for the entire year.

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 cost over net assets acquired in the transaction was $4,047,000, which is being amortized on a straight-line basis over 5 years.

Effective August 7, 1998 the Company acquired JDL Technologies, Inc. in exchange for 158,005 shares of its common stock. The acquisition was accounted for as a purchase. The excess of cost over net assets acquired in the transaction was $2,223,000, which is being amortized on a straight-line basis over 5 years. The results of operations of JDL Technologies, Inc. have been included in the Company's operations effective August 7, 1998.

Unaudited consolidated results of operations on a pro forma basis as though these acquisitions were effective January 1, 1998 are as follows:

	Three Months Ended September 30, 1998	Nine Months Ended September 30, 1998
Revenues	$ 25,549,999	$ 74,069,349
Net income	2,050,776	6,029,699
Basic net income per share	$ .23	$ .65
Diluted net income per share	$ .23	$ .65

In February 1999 the Company issued 19,893 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 1998 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $235,000 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

Effective April 8, 1999, the Company acquired all the capital stock of LANart Corporation for $3,956,000 (cash payments net of cash acquired). The transaction is being accounted for as a purchase. Excess cost over net assets acquired in the transaction was $3,523,000, which is being amortized on a straight-line basis over 5 years. The operations of LANart Corporation, which are not material to the Company's financial statements, are included in consolidated operations as of the effective date. Subsequent to the acquisition, the Company merged LANart's operations into Transition Networks, Inc.

NOTE 2 - NET INCOME PER SHARE

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

NOTE 3 - SEGMENT INFORMATION

The Company classifies its businesses into three 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 other operations. Information concerning the Company's operations in the various segments for the nine-month periods ended September 30, 1999 and 1998 is as follows: <TABLE> <CAPTION>

	Suttle	Austin Taylor	Transition Networks	Other	Consolidated
Nine Months Ended September 30, 1999:					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$44,422,016	$8,716,082	$26,134,463	$ 6,410,361	$85,682,922
Cost of sales	28,846,450	7,071,579	16,418,102	4,274,791	56,610,922
Gross profit	15,575,566	1,644,503	9,716,361	2,135,570	29,072,000
Selling, general and administrative expenses	6,146,014	1,012,953	10,401,783	3,580,127	21,140,877
Operating income (loss)	$ 9,429,552	$ 631,550	$ (685,422)	$(1,444,557)	$ 7,931,123
Depreciation and amortization	$ 1,748,636	$ 480,667	$ 1,211,534	$ 477,415	$ 3,918,252
Assets	$49,087,016	$7,346,459	$20,203,702	$12,555,542	$89,192,719
Capital expenditures	$ 1,041,379	$ 360,839	$ 73,424	$ 140,966	$ 1,616,608
Nine Months Ended September 30, 1998:					
Revenues	$42,215,632	$8,923,157		$ 1,346,578	$52,485,367
Cost of sales	28,375,955	7,335,932		976,435	36,688,322
Gross profit	13,839,677	1,587,225		370,143	15,797,045
Selling, general and administrative expenses	5,948,875	951,231		1,533,785	8,433,891
Operating income (loss)	$ 7,890,802	$ 635,994		$(1,163,642)	$ 7,363,154
Depreciation and amortization	$ 1,522,578	$ 417,951		$ 173,451	$ 2,113,980
Assets	$51,979,244	$9,883,890		$12,324,135	$74,187,269
Capital expenditures	$ 2,018,991	$ 488,516		$ 111,628	$ 2,619,135

</TABLE>

Information concerning the Company's operations in the various segments for the three-month periods ended September 30, 1999 and 1998 is as follows:
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	Suttle	Austin Taylor	Transition Networks	Other	Consolidated
Three Months Ended September 30, 1999:					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$14,444,556	$3,007,289	$ 9,404,629	$ 2,422,212	$29,278,686
Cost of sales	9,476,906	2,455,586	5,734,781	1,476,254	19,143,527
Gross profit	4,967,650	551,703	3,669,848	945,958	10,135,159
Selling, general and administrative expenses	2,060,648	332,359	3,748,642	1,401,954	7,543,603
Operating income (loss)	$ 2,907,002	$ 219,344	$ (78,794)	$ (455,996)	$ 2,591,556

Depreciation and amortization	$ 689,374	$ 160,744	$ 460,400	$ 159,138	$ 1,469,656
Capital expenditures	$ 524,615	$ 102,089	$ 23,214)	$ 86,838	$ 690,328
Three Months Ended September 30, 1998:					
Revenues	$14,019,935	$2,663,017		$ 1,346,578	$18,029,530
Cost of sales	9,523,896	2,326,394		976,435	12,826,725
Gross profit	4,496,039	336,623		370,143	5,202,805
Selling, general and administrative expenses	1,775,332	268,375		796,473	2,840,180
Operating income (loss)	$ 2,720,707	$ 68,248		$ (426,330)	$ 2,362,625
Depreciation and amortization	$ 507,527	$ 140,622		$ 109,923	$ 758,072
Capital expenditures	$ 364,668	$ 35,540		$ 87,589	$ 487,797

</TABLE>

NOTE 4 - INVENTORIES

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

	September 30 1999	December 31 1998
Finished Goods	$ 7,765,105	$ 8,450,447
Raw Materials	11,490,843	12,387,061
Total	$ 19,255,948	$ 20,837,508

NOTE 5 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended September 30, 1999 and 1998 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rico operations is taxed at rates lower than the U.S. rate.

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Statements regarding the Company's anticipated performance in future periods are forward looking and involve risks and uncertainties. These include but are not limited to: buying patterns of its Regional Bell Operating Company customers, competitor's products, the success of its recent acquisitions, changes in tax laws, particularly in regard to taxation of its subsidiary in Puerto Rico, Year 2000 exposures and other risks involving the telecommunications industry generally.

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

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Consolidated sales increased 63% to $85,683,000. Consolidated operating income increased 8% to $7,931,000.

Suttle sales increased 5% to $44,422,000. Sales to customers in the United States (U.S.) increased 6% to $42,716,000. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies (RBOCs) and GTE) increased 11% to $27,688,000. Sales to these customers accounted for 62% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $916,000, or 8%. Sales to retail customers decreased $822,000 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 6% to $1,706,000.

The sales gains were due to increased sales of Suttle's CorroShield and data products. CorroShield product sales increased 29%, reflecting a return to more normal buying patterns by the RBOCs, which are CorroShield's major customers. CorroShield products are continuing to displace conventional voice connecting products. Sales of conventional products declined 15% in the 1999 period. The

Company's sales of conventional voice products are also being hurt by price competition from foreign manufacturers. Sales of data products increased 28%. Sales of fiber-optic connector products decreased 33%. The Company relocated production of its fiber-optic connector products and closed its New Jersey manufacturing facility in August 1999, which disrupted third quarter sales.

Suttle's gross margins increased 13% to $15,576,000. Gross margin percentage improved to 35.1% in 1999 from 32.8% in 1998. The improvement in gross margin was due to product mix. The fastest selling products in 1999 (CorroShield and data products) tended to be the products with the highest margins. Selling, general and administrative expenses increased $197,000 or 3%. Suttle's operating income increased $1,539,000 or 20%.

Austin Taylor's sales decreased 2% to $8,716,000. The decrease was due to reduced sales of CATV products caused by major reductions of cable television construction activity in the U.K. Austin Taylor's gross margin increased 4% to $1,645,000. Gross margin as a percentage of sales was 19% compared to 18% in 1998. Selling, general and administrative expenses increased $62,000 or 6%. Operating income decreased $4,000.

The Company acquired Transition Networks, Inc. in December 1998. In April 1999, the Company acquired LANart Corporation, which has been merged into Transition Networks. The combined entities had sales of $26,134,000 and an operating loss of $685,000 in the 1999 period. The strong sales performance was due to increased international sales and the introduction of new products. Transition Networks believes it currently has a 22% share of the market for media conversion products. Expenses associated with closing LANart's sales and marketing operations in Europe and transferring inventory and manufacturing processes from Massachusetts to Minnesota were a significant cause of the operating loss.

The Company acquired JDL Technologies, Inc. in August 1998. JDL had sales of $6,410,000 in the 1999 period, an increase of 63% (on a pro forma basis) from sales in the first nine months of 1998. JDL had an operating loss of $151,000 in 1999 compared to a pro forma loss of $592,000 in 1998. Government funding delays for new telecommunications infrastructure in the public schools negatively affected JDL's performance in the first part of 1999. JDL earned a significant portion of its revenues in the 1999 period from contracts to provide network services and equipment to the U.S. Virgin Islands Department of Education and to the Gary, Indiana public schools. CSI's corporate operating expenses were $1,293,000 compared to $1,069,000 in the 1998 period.

Consolidated investment income, net of interest expense, decreased $904,000 due to decreased levels of funds available for investment and interest expense on notes payable associated with acquisitions. Income before income taxes decreased $336,000 or 4%. The Company's effective income tax rate was 22.4% compared to 22.2% in 1998. Net income decreased $266,000 or 4%.

Three Months Ended September 30, 1999 Compared to
Three Months Ended September 30, 1998

Consolidated sales increased 62% to $29,279,000. Consolidated operating income increased 10% to $2,592,000.

Suttle sales increased 3% to $14,445,000. Sales to customers in the United States (U.S.) increased 3% to $13,971,000. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies (RBOCs) and GTE) increased 2% to $8,903,000. Sales to these customers accounted for 62% of Suttle's sales. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased $705,000, or 19%. Sales to retail customers decreased $153,000 or 19% due to decreased sales to Radio Shack, which is Suttle's principal retail customer. Suttle's export sales decreased 5% to $473,000.

Suttle's CorroShield and data product lines had solid sales increases in the 1999 three-month period. Sales of data products increased 27%, reflecting increased customer demand for high-speed data connections to internet service providers. CorroShield product sales increased 9%, reflecting a return to more normal buying patterns by the RBOCs, which are CorroShield's major customers. CorroShield product sales are displacing sales of conventional voice connecting products with RBOC customers. Sales of conventional voice products declined 3% in the 1999 period. The Company's sales of conventional voice products are also being hurt by price competition from foreign manufacturers. Sales of fiber-optic connector products decreased 41%. The Company relocated production of its fiber-optic connector products and closed its New Jersey manufacturing facility in August 1999, which disrupted third quarter sales.

Suttle's gross margins increased 10% to $4,968,000. Gross margin percentage improved to 34.4% in 1999 from 32.1% in 1998. The improvement in gross margin was due to product mix. The fastest selling products in 1999 (CorroShield and data products) tended to be the products with the highest margins. Suttle's selling, general and administrative expenses increased $285,000 or 16%.

Suttle's operating income increased $186,000 or 7%.

Austin Taylor's sales increased 13% to $3,007,000. The improvement was due to increased export sales to telephone companies in Europe and the Far East. Austin Taylor's gross margin increased 64% to $552,000. Gross margin as a percentage of sales was 18.3% compared to 12.6% in 1998. Gross margin percentage was abnormally low in the 1998 period do to lower than sales volume. Selling, general and administrative expenses increased $64,000 or 24%. Operating income increased $151,000 or 221%.

The Company acquired Transition Networks, Inc. in December 1998. In April 1999, the Company acquired LANart Corporation, which has been merged into Transition Networks. The combined entities had sales of $9,405,000 and an operating loss of $79,000 in the 1999 period. Expenses associated with closing LANart's sales and marketing operations in Europe and transferring inventory and manufacturing processes from Massachusetts to Minnesota were a significant cause of the operating loss.

JDL Technologies, Inc. had sales of $2,422,000 in the 1999 period, an increase of $2,200,000 (on a pro forma basis) from sales in the third quarter of 1998. JDL had an operating loss of $16,000 in 1999 compared to a pro forma loss of $381,000 in 1998. JDL earned a significant portion of its revenues in the 1999 period from contracts to provide network services and equipment to the U.S. Virgin Islands Department of Education and to the Gary, Indiana public schools. CSI's corporate operating expenses in the third quarter were $440,000 compared to $332,000 in the 1998 period.

Consolidated investment income, net of interest expense, decreased $219,000 due to decreased levels of funds available for investment and interest expense on notes payable associated with acquisitions. Income before income taxes increased $10,000. The Company's effective income tax rate was 22.2% compared to 27.5% in 1998. The Company's tax rate was higher in the 1998 quarterly period due to higher tollgate tax expenses on dividends from the Company's Puerto Rico subsidiary. Net income increased $150,000 or 8%.

Liquidity and Capital Resources

At September 30, 1999, the Company had approximately $15,480,000 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 $32,416,000 and a current ratio of 2.3 to 1 compared to working capital of $37,268,000 and a current ratio of 2.8 to 1 at the end of 1998.

Cash flow provided by operations was approximately $9,823,000 in the first nine months of 1999 compared to $9,257,000 in the same period in 1998. Cash flow benefited in the 1999 period from decreased inventory levels, as the Company was able to satisfy some of the increased customer demand out of existing stocks. Depreciation and amortization charges, which are noncash expenses, increased $1,804,000 due to amortization of excess costs associated with the Company's acquisitions.

Investing activities utilized $10,180,000 of cash in the 1999 period. Cash investments in new plant and equipment totaled $1,617,000, which was financed by internal cash flows. The Company expects to spend $2,500,000 on capital additions in 1999. The Company paid $3,956,000 (net of cash acquired) to purchase LANart Corporation. The Company financed that acquisition using a combination of internal funds and short-term borrowing from U.S. Bank. Subsequent to the acquisition, the Company invested an additional $1,457,000 of cash in LANart to pay acquired liabilities and provide working capital. Short-term notes payable outstanding increased to $9,899,000 at September 30, 1999. The Company expects to repay or refinance this debt in 1999. The Company also invested $5,625,000 of cash held by its subsidiary in Puerto Rico in intermediate term bank notes.

Net cash used in financing activities was $4,548,000. The Company paid $3,253,000 to purchase and retire 309,500 shares of its stock in open market transactions during the 1999 period. Board authorizations to purchase 148,700 additonal shares were outstanding at September 30, 1999. Dividends paid on common stock increased to $2,621,000. Proceeds from borrowings, net of repayments, were $821,000.

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.

Year 2000 Issues

Most old computer software was originally designed to use references to calendar dates on an abbreviated basis. Under this system, references to the calendar year are abbreviated to the last two digits of the year, i.e. 1999 is abbreviated as "99". Software using this system often fails to recognize that the year 2000, abbreviated as "00", follows 1999. This "Y2K" problem can cause computing errors in date sensitive processes. In 1998, the Company surveyed its operations to locate computer systems that could be subject to this error and initiated a program of corrective action.

The Company's accounting and management control systems at Suttle and Austin Taylor utilize a company-wide computer network centered in the Company's Hector, MN corporate office. The hardware and software used in operating the network are all purchased from third party suppliers. The Company has contracted with these suppliers and obtained the necessary hardware and software to upgrade its computer systems. The Company believes these systems are currently Y2K compliant. Cost of hardware and software purchased as part of the Y2K compliance program was approximately $150,000. The Company did not separately track internal costs of Y2K compliance.

In 1998, the Company acquired JDL Technologies, Inc. and Transition Networks, Inc. These operations are not presently part of the Company's central computer network. Both operations utilize personal computer based computing networks that were materially Y2K compliant prior to their acquisition by the Company.

At the present time, none of the Company's subsidiaries manufacture products containing embedded controllers or microprocessors that are date sensitive or subject to the Y2K problem. The Company does not believe it has any warranty exposure to customers due to potential Y2K problems.

The Company has also been in contact with its major customers and suppliers to estimate the extent to which it may be vulnerable to their respective Y2K problems. The Company is reliant on third parties for critical functions, including raw materials and supplies, transportation, utilities and communications services. Multiple sources of supply are available for most of these products and services. The Company has not received any indication from these parties that they will not be Y2K compliant. The Company's worst probable Y2K related problem is the failure of third parties to provide necessary raw material, manufacturing supplies, utilities or communications services. Failure to receive needed materials or services could disrupt manufacturing systems and delay shipments to customers. The Company expects to utilize multiple sources of supply to meet any problems that arise. The Company does not expect production to be materially affected by Y2K related production problems.

At the present time, the Company expects to handle Y2K problems that occur as part of the ordinary course of business. No special contingency plans have been developed. The Company will continue to monitor its Y2K situation and will respond appropriately if any problem arises.

PART II. OTHER INFORMATION

Items 1 - 6. Not Applicable

Signatures

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

Communications Systems, Inc.

By /s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: November 15, 1999

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