

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1995

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 (IRS Employer  
incorporation or organization) Identification No.)

213 South Main, Hector, MN 55342

.....  
(Address of principle executive offices) (Zip Code)  
(612) 848-6231

.....  
(Registrant's telephone number, including zip code)

.....  
(Former name, former address, and former fiscal year,  
if changed since last report)

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 ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes..... No .....

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1995
----- Common Stock, par value \$.05 per share	----- 9,035,715

Total Pages (10) Exhibit Index at (NO Exhibits)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

Page No.  
-----

Part I. Financial Information:

Item 1. Financial Statements

Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
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Part II. Other Information	10
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PART I. FINANCIAL INFORMATION  
 COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements  
 <TABLE>  
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CONSOLIDATED BALANCE SHEETS  
 (unaudited)

<S>	<C>	<C>
	March 31 1995	December 31 1994
Assets:	-----	----
Current assets:		
Cash	\$7,550,907	\$8,829,776
Marketable securities	946,882	890,424
Receivables, net	14,377,935	12,535,306
Inventories - Note 2	16,050,353	16,190,879
Prepaid expenses	435,259	492,554
Deferred income taxes	1,108,000	1,108,000
	-----	-----
Total current assets	40,469,336	40,046,939
Property, plant and equipment	24,157,402	22,977,540
less accumulated depreciation	(13,332,171)	(12,707,397)
	-----	-----
Net property, plant and equipment	10,825,231	10,270,143
Assets of businesses transferred under contractual arrangements (notes receivable)	527,498	592,838
Other assets:		
Investments in mortgage backed and other securities	5,295,420	5,300,841
Excess of cost over net assets acquired	764,970	785,364
Deferred income taxes	376,047	376,047
Other assets	429,738	380,825
	-----	-----
Total other assets	6,866,175	6,843,077
	-----	-----
Total Assets	\$58,688,240	\$57,752,997
	=====	=====
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable and current portion of long-term debt	\$378,179	\$421,273
Accounts payable	4,942,496	5,843,729
Accrued expenses	2,743,101	2,833,987
Dividends payable	541,450	539,191
Income taxes payable	2,088,069	2,481,145
	-----	-----
Total current liabilities	10,693,295	12,119,325

Long-term debt	69,637	67,231
Stockholders' Equity	47,925,308	45,566,441
	-----	-----
Total Liabilities and Stockholders' Equity	\$58,688,240	\$57,752,997
	=====	=====

</TABLE>

See notes to consolidated financial statements.

-3-

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

<TABLE>  
<CAPTION>

	Three Months Ended March 31	
	1995	1994
<S>	<C>	<C>
Revenues:		
Sales	\$24,805,947	\$18,613,420
Costs and expenses:		
Cost of sales	18,757,202	13,976,893
Selling, general and administrative expenses	3,018,774	2,598,070
	-----	-----
Total costs and expenses	21,775,976	16,574,963
Operating income	3,029,971	2,038,457
Other income and (expenses):		
Investment income	304,710	138,425
Interest expense	(13,679)	(17,008)
	-----	-----
Other income, net	291,031	121,417
Income before income taxes	3,321,002	2,159,874
Income taxes (Note 3)	800,000	450,000
	-----	-----
Net income	\$2,521,002	\$1,709,874
	=====	=====
Net income per share	\$ .28	\$ .19
	=====	=====
Average common and common equivalent shares outstanding	9,149,000	9,106,000
	=====	=====

</TABLE>

See notes to consolidated financial statements.

-4-

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(unaudited)

<TABLE>  
<CAPTION>

Cumulative	Additional					
	Common Stock Shares	Stock Amount	Paid in Capital	Retained Earnings	Advances to ESOP	Translation Adjustment
Total	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE at December 31, 1993	8,944,115	\$447,206	\$17,659,865	\$22,779,139	(\$194,000)	(\$327,163)
\$40,365,047						
Net Income				6,803,630		
6,803,630						
Shareholder dividends				(2,062,815)		
(2,062,815)						
Issuance of common stock under						
Employee Stock Purchase Plan	15,408	770	130,198			
130,968						
Issuance of common stock under						
Employee Stock Option Plan	27,000	1,350	211,259			
212,609						
Repayment of advances to						
Employee Stock Ownership Plan					122,000	
122,000						
Cumulative translation adjustment						
(4,998) (4,998)						
-----						
BALANCE at December 31, 1994	8,986,523	449,326	18,001,322	27,519,954	(72,000)	(332,161)
45,566,441						
Net Income				2,521,002		
2,521,002						
Shareholder dividends				(541,450)		
(541,450)						
Issuance of common stock under						
Employee Stock Option Plan	26,000	1,300	190,831			
192,131						
Issuance of common stock to						
Welsh Development Agency	20,142	1,007	219,325			
220,332						
Advances to Employee Stock						
Ownership Plan					(220,331)	
(220,331)						
Cumulative translation adjustment						187,183
187,183						
-----						
BALANCE at March 31, 1995	9,032,665	\$451,633	\$18,411,478	\$29,499,506	(\$292,331)	(\$144,978)
\$47,925,308						
=====						

</TABLE>

See notes to consolidated financial statements.

-5-

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

<TABLE>

<CAPTION>

	Three Months Ended March 31	
	1995	1994
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$2,521,002	\$1,709,874
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	682,701	526,175
Deferred taxes		81,000
Adjustment to marketable securities reserve	(96,458)	(2,453)
Changes in assets and liabilities:		
Decrease in marketable securities	40,000	129,275
Increase in accounts receivable	(1,643,776)	(3,324,628)
Decrease (increase) in inventory	196,841	(555,874)
Decrease in prepaid expenses	62,960	28,987
Decrease in accounts payable	(955,414)	(811,866)

Increase (decrease) in accrued expenses	(116,249)	274,987
Increase (decrease) in income taxes payable	(392,678)	4,691
	-----	-----
Net cash provided by (used in) operating activities	298,929	(1,939,832)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,141,682)	(1,001,787)
Sales (purchases) of mortgage backed and other investment securities	6,236	(6,799)
Decrease (increase) in other assets	(53,305)	296,072
Collections from businesses transferred under contractual arrangements	65,340	149,257
Collections from Hector Communications Corporation		348,055
	-----	-----
Net cash used in investing activities	(1,123,411)	(215,202)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable and long-term debt	(47,635)	(24,887)
Dividends paid	(539,191)	(447,206)
Proceeds from issuance of notes payable and long-term debt		190,876
Proceeds from issuance of common stock	412,462	13,500
Advances to Employee Stock Ownership Plan	(220,331)	
	-----	-----
Net cash used in financing activities	(394,695)	(267,717)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		
	(59,692)	(19,949)
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,278,869)	(2,442,700)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,829,776	6,598,139
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$7,550,907	\$4,155,439
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	\$1,193,076	\$362,511
Interest paid	13,679	17,008

</TABLE>

See notes to consolidated financial statements.

-6-

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

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet and statement of stockholders' equity as of March 31, 1995, and the statements of income and cash flows for the three month periods ended March 31, 1995 and 1994 have been prepared by the company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at March 31, 1995 and 1994 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 financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1994 Annual Report to Shareholders. The results of operations for the periods ended March 31 are not necessarily indicative of the operating results for the entire year.

NOTE 2 - INVENTORIES

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

<TABLE>

<CAPTION>

	March 31 1995	December 31 1994
	-----	-----
<S>	<C>	<C>
Finished Goods	\$3,424,514	\$3,525,693
Raw Materials	12,625,839	12,665,186
	-----	-----
Total	\$16,050,353	\$16,190,879
	=====	=====

</TABLE>

NOTE 3 - INCOME TAXES

Income taxes are computed based upon the estimated effective rate applicable to operating results for the full fiscal year. For the periods ended March 31, 1995 and 1994 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rican operations are taxed at rates lower than the U.S. rate.

NOTE 4 - NET INCOME PER COMMON SHARE

Net income per share is based on the weighted average number of common and common equivalent shares outstanding during the periods. Common equivalent shares reflect the dilutive effect of outstanding stock options. Primary and fully diluted earnings per share are substantially the same.

-7-

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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

Three Months Ended March 31, 1995 Compared to  
Three Months Ended March 31, 1994

Consolidated revenues increased \$6,193,000 or 33% from the 1994 period. Telephone station apparatus revenues increased \$4,685,000, or 35%. Apparatus sales to domestic (U.S. and Puerto Rico) customers increased \$3,515,000, or 35%. Sales to the Big 8 telephone companies (the Regional Bell Operating Companies and GTE) increased \$2,586,000 or 42% and accounted for 63% of domestic apparatus sales in the 1995 period. Sales increases to these customers were due to strong sales of the Company's Corroshield line of corrosion resistant products. Sales to electrical distributors and original equipment manufacturers increased \$43,000 or 3%. Sales to retail customers increased \$366,000 or 34%.

Sales of telephone station apparatus to international customers increased \$1,170,000 or 37% over 1994. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased \$1,249,000 or 49%, due to strong sales across the Company's product line. U.S. export sales declined \$127,000 or 32%. Sales in Canada increased \$52,000 or 25%.

Contract manufacturing revenues increased \$1,507,000, or 29%. Sales to Thermo-King, the segment's principal customer, increased \$825,000 over 1994, and accounted for 49% of the segment's sales. Sales of multifunction display units used by a major watercraft manufacturer increased \$336,000 or 40%, accounting for 17% of the segment's sales. Sales of printed circuit board assemblies to a Minnesota original equipment manufacturer added \$452,000 of new business in the quarter. Sales of the Company's proprietary line of electronic fishing products declined \$76,000, or 14%.

Gross margin as a percentage of apparatus sales was 29%, unchanged from the 1994 period. Gains in overhead efficiencies in U.S. plants due to increased production volume were offset by changes in product mix, particularly Corroshield products which the Company sells at lower margins than standard products. Margins earned on Austin Taylor products improved to 29% from 25% in the 1994 period reflecting Austin Taylor's increased volume of business. Gross margin on contract manufacturing sales declined to 12% compared to 15% in 1994 due to inventory reserves established on certain slow-moving inventory items in the 1995 period.

Selling, general and administrative expenses increased \$421,000 or 16% from the 1994 period. Increased customer delivery charges in the U.S. and increased selling expenses in the U.K. caused the increase. The Company used air freight delivery to a much higher percentage of its U.S. customers than normal due to tight production scheduling caused by the increased sales volumes.

-8-

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Managements' Discussion (continued)

Consolidated operating income increased \$992,000 or 49%. Net other income increased \$170,000 from the 1994 period due to gains on sales of marketable securities and increases in the value of the Company's marketable securities portfolio. The Company's effective income tax rate was 24% for the 1995 period compared to 21% in 1994. The Company's tax rate is lower than the full U.S. rate due to tax exemptions and benefits received by the Company's Puerto Rico operations. The Company's tax rate increased in 1995 due to limitations on the

possessions tax credit the Company receives against U.S. income taxes on the earnings of its Puerto Rico subsidiary. Net income increased 47%.

#### Liquidity and Capital Commitments

At March 31, 1995 the Company had approximately \$7,551,000 in cash compared to \$8,830,000 at December 31, 1994. Cash was utilized during the period to finance increases in accounts receivable, finance new plant and equipment and pay dividends and current liabilities. Working capital increased \$1,848,000 from year end to \$29,776,000. The Company's current ratio was 3.8 to 1, compared to 3.3 to 1 at December 31, 1994.

Order input for U.S. apparatus products was \$15,538,000 in the first quarter of 1995, up 58% from the 1994 period. First quarter shipments to customers were an all-time record. Sales order backlog increased to \$6,914,000. The Company has responded to the increased demand by increasing production shifts, working plants overtime, and increasing use of air shipments to reduce production lead times and customer delivery times. The Company is also expanding its use of outside contract manufacturers to increase its manufacturing capacity.

The Company's balance sheet remains strong, with stockholders' equity of \$47,925,000 and long-term debt of only \$70,000. The Company has available a \$2,000,000 bank line of credit. The Company's cash flows from operations exceeded \$7,000,000 in 1994, and management expects a similar performance in 1995, despite first quarter cash used in operations of \$1,100,000 made necessary by the Company's increased volume of business. Management believes, based on the Company's current financial position and projected future expenditures, that sufficient funds are available to meet the Company's anticipated needs.

-9-

#### COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

#### 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 Paul N. Hanson  
-----  
Paul N. Hanson  
Vice President and  
Chief Financial Officer

Date: May 11, 1995





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