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, 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 incorporation or organization)	(Federal Employer Identification No.)
213 South Main Street, Hector, MN	55342
(Address of principal executive offices)	(Zip Code)

(612) 848-6231

Registrant's telephone number, including area 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 October 31, 1995
Common Stock, par value $.05 per share	9,171,210

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
INDEX

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>
	September 30	December 31
Assets:	1995	1994
Current assets:		
Cash	$11,804,923	$8,829,776
Marketable securities	889,599	890,424
Receivables, net	12,860,289	12,535,306
Inventories - Note 2	17,344,296	16,190,879
Prepaid expenses	480,321	492,554
Deferred income taxes	1,108,000	1,108,000
Total current assets	44,487,428	40,046,939
Property, plant and equipment	25,344,486	22,977,540
Less accumulated depreciation	(14,435,336)	(12,707,397)
Net property, plant and equipment	10,909,150	10,270,143
Other assets:		
Assets of businesses transferred under contractual arrangements (notes receivable)	75,831	592,838
Investments in mortgaged backed and other securities	5,300,150	5,300,841
Excess of cost over net assets acquired	724,389	785,364
Deferred income taxes	376,047	376,047
Other assets	395,103	380,825
Total other assets	6,871,520	7,435,915
Total Assets	$62,268,098	$57,752,997
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable and current portion of long-term debt	$284,927	$421,273
Accounts payable	4,056,944	5,843,729
Accrued expenses	3,125,487	2,833,987
Dividends payable	641,985	539,191
Income taxes payable	1,888,765	

		2,481,145
Total current liabilities	9,998,108	12,119,325
Long-term debt	68,004	67,231
Stockholders' Equity	52,201,986	45,566,441
Total Liabilities and Stockholders' Equity	$62,268,098	$57,752,997

</TABLE>

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

<TABLE>
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CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

<S>	Three Months Ended Sept.30 1995 <C>	Three Months Ended Sept.30 1994 <C>	Nine Months Ended Sept.30 1995 <C>	Nine Months Ended Sept.30 1994 <C>
Sales	$20,205,631	$17,549,831	$66,877,595	$54,464,507
Costs and expenses:				
Cost of sales	15,049,512	13,193,465	50,810,156	40,977,444
Selling, general and administrative expenses	2,613,250	2,577,285	7,780,023	7,862,289
Total costs and expenses	17,662,762	15,770,750	58,590,179	48,839,733
Operating income	2,542,869	1,779,081	8,287,416	5,624,774
Other income and (expenses):				
Investment income	218,608	105,766	739,671	304,667
Interest expense	(11,104)	(16,734)	(39,025)	(44,938)
Other income, net	207,504	89,032	700,646	259,729
Income before income taxes	2,750,373	1,868,113	8,988,062	5,884,503
Income taxes (Note 3)	595,000	380,000	2,015,000	1,160,000
Net income	$2,155,373	$1,488,113	$6,973,062	$4,724,503
Net income per share	$.23	$.16	$.76	$.52

Average common and common equivalent shares outstanding	9,318,000	9,089,000	9,214,000	9,089,000
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</TABLE>

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

<TABLE>
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Advances to ESOP	Cumulative Translation Adjustment	Total
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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)
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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				6,973,062			6,973,062
Shareholder dividends				(1,820,834)			(1,820,834)
Issuance of common stock under Employee Stock Option Plan	140,978	7,049	1,081,050				1,088,099
Issuance of common stock under Employee Stock Purchase Plan	23,567	1,179	193,956				195,135
Issuance of common stock to Welsh Development Agency	20,142	1,007	219,325				220,332
Advances to Employee Stock Ownership Plan					(220,332)		(220,332)
Cumulative translation adjustment						200,083	200,083
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BALANCE at September 30, 1995	9,171,210	$458,561	$19,495,653	$32,672,182	$(292,332)	$(132,078)	$52,201,986
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See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30 1995	1994
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net income	$6,973,062	$4,724,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,906,358	1,606,830
Adjustment to marketable securities reserve	(79,175)	75,698
Deferred tax items		418,202
Changes in assets and liabilities:		
Decrease in marketable securities	80,000	129,275
Increase in receivables	(174,483)	(2,792,653)
Increase in inventories	(1,138,759)	(126,124)
Decrease (increase) in prepaid expenses	13,482	(96,894)
Increase (decrease) in accounts payable	(1,696,485)	219,398
Increase in accrued expenses	171,162	923,804
Decrease in income taxes payable	(592,688)	(348,672)
Net cash provided by operating activities	5,462,474	4,733,367
Cash Flows from Investing Activities:		
Capital expenditures	(2,450,041)	(3,333,538)
Decrease in mortgaged-backed and other securities	15,324	22,226
Collections from Hector Communications Corp.		348,055
Collections from businesses transferred under contractual arrangements	517,007	262,099
Decrease (increase) in other assets	(29,083)	285,885
Net cash used in investing activities	(1,946,793)	(2,415,273)
Cash Flows from Financing Activities:		
Repayments of notes payable and long-term debt	(138,405)	(100,752)
Proceeds from issuance of long-term debt		174,290
Dividends paid	(1,718,040)	(1,431,819)
Proceeds from issuance of common stock	1,503,566	318,265
Advances to Employee Stock Ownership Plan	(220,332)	
Net cash used in financing activities	(573,211)	(1,040,016)
Effect of Foreign Exchange Rate Changes on Cash	32,677	41,061
Net Increase in Cash and Cash Equivalents	2,975,147	1,319,139
Cash and Cash Equivalents at Beginning of Period	8,829,776	6,598,139
Cash and Cash Equivalents at End of Period	$11,804,923	$7,917,278

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Supplemental disclosures of cash flow information:		
Income taxes paid during the period	$2,607,380	$1,088,672
Interest paid during the period	39,025	44,938

</TABLE>

See notes to consolidated financial statements.

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 September 30, 1995, the statements of income for the three and nine month periods ended September 30, 1995 and 1994 and the statements of cash flows for the nine month periods ended September 30, 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 changes in cash flows at September 30, 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 condensed 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 September 30 are not necessarily indicative of the operating results for the entire year.

NOTE 2 - INVENTORIES

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

	September 30 1995	December 31 1994
<S>	<C>	<C>
Finished Goods	$3,928,587	$3,525,693
Raw Materials	13,415,709	12,665,186
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Total	$17,344,296	$16,190,879
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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 September 30, 1995 and 1994 income taxes do not bear a normal relationship to income before income taxes, primarily because income from Puerto Rico 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.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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

Nine Months Ended September 30, 1995 Compared to
Nine Months Ended September 30, 1994

Consolidated revenues increased $12,413,000 or 23% from the 1994 period. Telephone station apparatus revenue increased $9,583,000 or 23%. Apparatus sales to domestic (U.S. and Puerto Rico) customers increased $8,319,000 or 27%. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $6,521,000 or 36% and accounted for 62% 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 $541,000 or 14%. Sales to retailers increased $551,000 or 15%.

Sales of telephone station apparatus to international customers increased $2,144,000 or 19%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased $1,128,000 or 12%. U.S. export sales increased $879,000 or 90%. Sales in Canada increased $136,000 or 21%.

Contract manufacturing sales increased $2,830,000 or 22%. Sales to Thermo-King, the segment's principal customer, declined $295,000 or 4%, due to Thermo-King's decision to move more of its manufacturing process to a plant it owns in Puerto Rico. Sales to Thermo-King accounted for 44% of Zercom's sales in the 1995 period compared to 56% of sales in the 1994 period. Sales of multi-function display units used by a major watercraft manufacturer increased $1,252,000 or 111%. Sales of the Company's proprietary line of electronic fishing products increased $522,000 or 96%. Sales of printed circuit board assemblies to a Minnesota original equipment manufacturer added $768,000 of new business in the period.

Gross margin as a percentage of apparatus sales was 27%, compared to 28% in 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 declined to 20% from 25% in the 1995 period due to increased raw material costs. Gross margin on contract manufacturing sales declined to 13% 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 decreased $82,000 or 1% from the 1994 period. Increased customer delivery charges in the U.S. were offset by lower selling expenses and lower corporate expenses.

Consolidated operating income increased $2,663,000 or 47%. Net other income increased $441,000 from the 1994 period due to increased interest income on the Company's increased cash reserves, 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 22% compared to 20% in the 1994 period. 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 $2,249,000, or 48%.

Three Months Ended September 30, 1995 Compared to
Three Months Ended September 30, 1994

Consolidated revenues increased $2,656,000 or 15% from the 1994 period. Telephone station apparatus revenues increased $2,524,000 or 18%. Apparatus sales to domestic (U.S. and Puerto Rico) customers increased $1,916,000 or 19%. Sales to the Big 8 telephone companies increased $2,319,000 or 38% and accounted for 67% 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. The Company made first time volume shipments of CorroShield products to one RBOC in the 1995 period. Sales to retail customers increased $77,000 or 7%. Sales to electrical distributors and original equipment manufacturers increased $320,000 or 32%. Sales to other distributor decreased $685,000 or 49%.

Sales of telephone station apparatus to international customers increased $608,000 or 16% over 1994. U.S. export sales increased $489,000 or 185% due to sales of CorroShield products to Latin America and Caribbean island customers. Sales by Austin Taylor increased $52,000 or 2%. Sales in Canada increased $66,000 or 32%.

Contract manufacturing revenues increased $131,000 or 4%. Sales to Thermo-King declined $431,000 or 20%. The sales decline was due to Thermo-King's decision to perform certain manufacturing functions in-house which were previously done by the Company. Sales of video cables and wiring harnesses increased $150,000. Sales of electronic fishing products increased $130,000. Sales of printed circuit board assemblies to a Minnesota original equipment manufacturer added $113,000 of business in the 1995 period. Sales of multi-function display units for watercraft increased $51,000.

Gross margin as a percentage of apparatus sales was 29%, compared to 28% in the 1994 period. Margin improvements were due to gains in overhead efficiencies in U.S. plants associated with increased production volumes, reductions in production overtime premiums paid, and reduced use of air freight to move inventory. Margins earned on Austin Taylor products declined to 22% from 26% in the 1994 period due to increased raw material costs. Gross margin on contract manufacturing sales was 12% compared to 13% in the 1994 period.

Selling, general and administrative expenses increased $36,000 or 1%. Increased customer delivery expenses offset lower selling and corporate expenses in the period.

Consolidated operating income increased $764,000 or 43%. Net other income increased $118,000 from the 1994 period due to increased interest income on the Company's increased cash reserves. The Company's effective income tax rate was 22% for the 1995 period compared to 20% 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 $667,000, or 45%.

Liquidity and Capital Commitments

At September 30, 1995 the Company had approximately $11,805,000 in cash compared to $8,830,000 at December 31, 1994. Working capital increased $6,562,000 from year end to $34,489,000. The Company's current ratio was 4.4 to 1, compared to 3.3 to 1 at December 31, 1994.

Net cash provided by operating activities increased 15% from the 1994 nine months to $5,462,000. Cash was utilized during the period to finance increases in inventory, purchase new plant and equipment and pay dividends and current liabilities. The Company received $1,504,000 from issuance of common stock during the 1995 period, principally from exercises of employee stock options.

The Company's balance sheet remains strong, with stockholders' equity of $52,202,000 compared to long-term debt of only $68,000. The Company has available a $2,000,000 bank line of credit. 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.

The deficit reduction plan presently being considered by Congress includes a provision which would eliminate, over a period of years, the possessions tax credit (Section 936) for companies operating in Puerto Rico. The Company has operated in Puerto Rico since 1978 and a major part of its investment in its telephone station apparatus manufacturing operation is located there. The Company has also benefited greatly from the possessions tax credit, which reduced the Company's income tax expense for the 1995 nine months by $1,575,000. The Company believes elimination of the credit will have a negative impact on both the Puerto Rico economy and the Company's Puerto Rico operation. The Company cannot predict the form of the tax plan Congress will ultimately institute or the effect the plan will have on the Company.

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: November 10, 1995

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