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, 1996

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

(Former name, address, and 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, 1996
Common Stock, par value $.05 per share	9,226,309

Total Pages (12) Exhibit Index at (NO EXHIBITS)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

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PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

Assets:	September 30 1996	December 31 1995
Current assets:		
<S>	<C>	<C>
Cash	$14,892,182	$11,703,536
Marketable securities	859,890	899,469
Receivables, net	11,121,364	8,501,117
Inventories - Note 3	13,211,397	14,828,534
Prepaid expenses	618,163	345,004
Deferred income taxes	869,000	869,000
Total current assets	41,571,996	37,146,660
Property, plant and equipment	23,744,102	22,295,204
less accumulated depreciation	(15,044,851)	(13,637,184)
Net property, plant and equipment	8,699,251	8,658,020
Net assets of and advances to discontinued Zercom operations	8,364,379	9,255,016
Other assets:		
Investments in mortgage backed and other securities	4,643,194	5,398,316
Excess of cost over net assets acquired	3,173,596	659,264
Deferred income taxes	354,044	354,044
Other assets	293,744	473,285
Total other assets	8,464,578	6,884,909
Total Assets	$67,100,204	$61,944,605
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable		$66,715
Accounts payable	$3,157,698	3,181,684
Accrued expenses	2,260,664	1,957,429
Dividends payable	740,278	642,838
Income taxes payable	2,615,638	2,020,363
Total current liabilities	8,774,278	7,869,029
Stockholders' Equity	58,325,926	54,075,576
Total Liabilities and Stockholders' Equity	$67,100,204	$61,944,605

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	1996	1995	1996	1995
Revenues from continuing operations:				
<S>	<C>	<C>	<C>	<C>
Sales	$18,390,779	$16,441,140	$50,618,464	$51,057,478
Costs and expenses:				
Cost of sales	12,529,048	11,730,923	35,504,434	37,111,694
Selling, general and administrative expenses	2,869,937	2,085,447	7,884,875	6,095,290
Total costs and expenses	15,398,985	13,816,370	43,389,309	43,206,984
Operating income from continuing operations	2,991,794	2,624,770	7,229,155	7,850,494
Other income and (expenses):				
Investment income	175,506	197,472	490,719	698,150
Interest expense	(4,492)	(7,578)	(16,499)	(26,129)
Other income, net	171,014	189,894	474,220	672,021
Income from continuing operations before income taxes	3,162,808	2,814,664	7,703,375	8,522,515
Income taxes (Note 4)	730,000	615,000	1,600,000	1,835,000
Income from continuing operations	2,432,808	2,199,664	6,103,375	6,687,515
Discontinued operations (Note 2):				
Income (loss) from discontinued Zercom operations, net of income taxes	(27,846)	(44,291)	(355,124)	285,547
Loss on disposal of Zercom operations, including provision of $30,000 for operating losses during disposal period (net of income tax benefit of $133,000)	(393,000)		(393,000)	
Net income	$2,011,962	$2,155,373	$5,355,251	$6,973,062
Net income per share:				
Continuing operations	$.26	$.24	$.65	$.73
Discontinued operations	(.05)	(.01)	(.08)	.03
	$.21	$.23	$.57	$.76
Average common and common equivalent shares outstanding	9,371,000	9,318,000	9,393,000	9,214,000

See notes to consolidated financial statements.

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

		Common Stock		Additional Paid in Capital	Retained Earnings	Advances to ESOP	Cumulative Translation Adjustment	Total
		Shares	Amount					
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	Shares	Amount	Additional Paid-in Capital	Retained Earnings	ESOP Advances	Translation Adjustment	Total
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				9,084,153			9,084,153
Shareholder dividends				(2,463,672)			(2,463,672)
Issuance of common stock under Employee Stock Option Plan	173,311	8,666	1,267,846				1,276,512
Tax benefit from nonqualified employee stock options			243,000				243,000
Issuance of common stock under Employee Stock Purchase Plan	23,567	1,178	193,957				195,135
Issuance of common stock to Welsh Development Agency	20,142	1,007	219,325				220,332
Purchase of Communications Systems Inc. common stock	(20,142)	(1,007)	(219,325)				(220,332)
Cumulative translation adjustment						102,007	102,007
Repayment of advances to ESOP					72,000		72,000
BALANCE at December 31, 1995	9,183,401	459,170	19,706,125	34,140,435	0	(230,154)	54,075,576
Net Income				5,355,251			5,355,251
Shareholder dividends				(2,139,570)			(2,139,570)
Issuance of common stock under Employee Stock Purchase Plan	14,346	717	157,806				158,523
Issuance of common stock under Employee Stock Option Plan	50,381	2,519	449,652				452,171
Purchase of Communications Systems Inc. common stock	(107,330)	(5,366)	(252,551)	(1,068,495)			(1,326,412)
Issuance of common stock to acquire Automatic Tool and Connector Co.	112,676	5,634	1,712,675				1,718,309
Cumulative translation adjustment						32,078	32,078
BALANCE at September 30, 1996	9,253,474	$462,674	$21,773,707	$36,287,621	0	($198,076)	$58,325,926

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	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income from continuing operations	$6,103,375	$6,687,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,832,389	1,526,599
Adjustment to marketable securities reserve	39,579	(79,175)
Changes in assets and liabilities:		
Decrease in marketable securities		80,000
Increase in accounts receivable	(2,101,972)	(683,280)
Decrease (increase) in inventory	2,078,504	(2,041,979)
Increase in prepaid expenses	(260,366)	(57,721)
Decrease in accounts payable	(786,495)	(657,368)
Increase in accrued expenses	304,049	232,257
Increase (decrease) in income taxes payable	591,591	(592,688)

Net cash provided by operating activities	7,800,654	4,414,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,576,342)	(1,970,799)
Decrease in mortgage backed and other investment securities	755,171	15,324
Decrease in other assets	190,377	487,924
Changes in assets and liabilities of discontinued operations	142,513	(1,041,335)
Payment for purchase of Austin Taylor Communications, Ltd.	(135,131)	
Payment for purchase of Automatic Tool and Conector Company, Inc., net of cash acquired	(1,178,008)	
Net cash used in investing activities	(1,801,420)	(2,508,886)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(58,969)	(117,780)
Dividends paid	(2,042,130)	(1,718,040)
Proceeds from issuance of common stock	610,694	1,503,566
Purchases of Communications Systems, Inc. common stock	(1,326,412)	(220,331)
Net cash used in financing activities	(2,816,817)	(552,585)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	6,229	32,677
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,188,646	1,385,366
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,703,536	8,746,070
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$14,892,182	$10,131,436
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$1,004,628	$2,607,380
Interest paid	16,499	26,129

See notes to consolidated financial statements.
</TABLE>

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, 1996, the statements of income for the three and nine month periods ended September 30, 1996 and 1995, and the statements of cash flows for the nine month periods ended September 30, 1996 and 1995 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, 1996 and 1995 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, 1995 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 - DISCONTINUED OPERATIONS

On November 4, 1996, the Company completed the sale of its contract manufacturing subsidiary, Zercom Corporation, to Nortech Systems, Inc. (Nasdaq National Market: NSYS). Nortech Systems acquired all the assets of Zercom, except cash and accounts receivable, in exchange for $1.5 million cash and a $5.0 million term note secured by Zercom's assets. Loss on disposal of the segment was $393,000, net of a tax benefit of $133,000.

The Company's financial statements have been restated to separate the net assets and operating results of Zercom Corporation from the Company's continuing operations. Zercom's operating results were as follows:
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	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Sales	$3,033,690	$3,764,491	$11,846,815	$15,820,117
Costs and expenses	3,077,965	3,846,392	12,401,679	15,383,195
Interest income, net	11,429	17,610	24,740	28,625
Income before income taxes	(32,846)	(64,291)	(530,124)	465,547
Income taxes (benefit)	(5,000)	(20,000)	(175,000)	180,000
Income (loss) from operations	(27,846)	(44,291)	(355,124)	285,547
Loss on disposal of discontinued operations,including provision of $30,000 for operating losses during disposal period net of income tax benefit of $133,000	(393,000)		(393,000)	
Net loss	($420,846)	($44,291)	($748,124)	$285,547

</TABLE>

NOTE 2 (continued)

Net assets of discontinued Zercom operations consist of:

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	September 30 1996	December 31 1995
<S>	<C>	<C>
Property, plant and equipment	$2,335,302	$2,257,288
Inventory	3,965,741	4,694,429
Other working capital	2,157,130	1,957,334
Other assets	299,206	345,965
Accrued loss on disposal, net of tax	(393,000)	
Net assets of discontinued operations	$8,364,379	$9,255,016

</TABLE>

NOTE 3 - INVENTORIES

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

	September 30 1996	December 31 1995
Finished Goods	$3,287,774	$4,231,990
Raw Materials	9,923,623	10,596,544
Total	$13,211,397	$14,828,534

NOTE 4 - 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, 1996 and 1995 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 5 - 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.

NOTE 6 - ACQUISITION OF AUTOMATIC TOOL AND CONNECTOR CO., INC.

Effective January 4, 1996, the Company acquired Automatic Tool and Connector Co., Inc., a Union, New Jersey based manufacturer of fiber optic connectors, in exchange for $1,373,000 in cash and 112,676 shares of Communications Systems, Inc. common stock (market value of $1,718,000 at January 4, 1996). The acquisition was accounted for as a purchase and the purchase price was allocated to the assets acquired. Excess of cost over net assets acquired was $2,760,000, which is being amortized over ten years on a straight line basis. Results of Automatic Tool, which were not material to the Company's financial results, are included in Company operations beginning January 4, 1996.

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

Nine Months Ended September 30, 1996 Compared to Nine Months Ended September 30, 1995

Revenues from continuing operations decreased $439,000 or 1% from the 1995 period. Suttle Apparatus sales to domestic (U.S. and Puerto Rico) customers decreased $696,000 or 2%. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $468,000 or 2% due to increased third quarter shipments of CorroShield products, which offset lower first half shipments attributed to customer inventory overstocks. These sales gains were offset by lower sales to other customer segments. Sales to electrical distributors and original equipment manufacturers decreased $1,074,000 or 24%. Sales to retailers decreased $475,000 or 11%. Sales of fiber optic connectors by Automatic Tool and Connector Co., which the Company acquired in January, 1996, were $3,570,000 in the first nine months of 1996.

Sales to international customers decreased $3,313,000 or 25%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $2,454,000 or 23% due to the phase-out of certain products previously sold to British Telecom. The Company believes sales to British Telecom have been adversely affected by that company's reaction to privatization and deregulation of the U.K. telecommunications market. As a result of deregulation, British Telecom has reduced its administrative staff by more than 50% and centralized its purchasing around a small number of large suppliers. This has made it difficult for smaller companies such as Austin Taylor to compete for this market. Sales to British Telecom accounted for only 6% of Austin Taylor's sales in the 1996 period, compared to 15.6% of sales in 1995 and 28.4% of sales in 1994. U.S. export sales decreased $819,000 or 44%. Sales in Canada decreased $40,000 or 5%.

Gross margin as a percentage of sales was 30% compared to 27% in the 1995 period. Margin percentages improved in U.S. plants due to reduction in manufacturing overheads, freight charges and payroll overtime premiums. Margins earned on Austin Taylor products declined to 18% from 20% in the 1995 period due to increased raw material costs and unfavorable overhead absorption caused by reduced production volume.

Selling, general and administrative expenses increased $1,790,000 or 29% from the 1995 period. The increase was due to selling and administrative expenses associated with the newly acquired Automatic Tool and Connector Co. operations and increased international sales expenses associated with efforts to develop export markets for telephone station apparatus products.

Operating income from continuing operations decreased $621,000 or 8%. Net other income decreased $198,000 from the 1995 period due to fluctuations in the value of the Company's marketable securities portfolio. The Company's effective income tax rate was 21% compared to 22% in the 1995 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. Income from continuing operations decreased $584,000, or 9%.

Three Months Ended September 30, 1996 Compared to Three Months Ended September 30, 1995

Revenues from continuing operations increased $1,950,000 or 12% from the 1995 period. Telephone station apparatus sales to domestic (U.S. and Puerto Rico) customers increased $1,421,000 or 12%. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $747,000 or 8%. Sales to retailers increased $175,000 or 14%. Sales to electrical distributors and original equipment manufacturers decreased $280,000 or 21%. Sales to other customers (principally distributors serving non-RBOC customers) increased

$422,000 or 35%. Sales of fiber optic connectors by Automatic Tool and Connector Co., which the Company acquired in January, 1996, were $1,489,000 in the 1996 period.

Sales of telephone station apparatus to international customers decreased $960,000 or 21%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $498,000 or 14% due to the phase-out of certain products previously sold to British Telecom. U.S. export sales decreased $357,000 or 47%. Sales in Canada fell $105,000 or 38%.

Gross margin as a percentage of sales was 32% compared to 29% in the third quarter of 1995. Margin percentages improved in U.S. plants due to reduction in manufacturing overheads, freight charges and payroll overtime premiums. Margins earned on Austin Taylor products declined from 22% to 20% in the 1996 period due to increased raw material costs and unfavorable overhead absorption caused by reduced production volume.

Selling, general and administrative expenses increased $784,000 or 38% from the 1995 period. The increase was due to selling and administrative expenses associated with the newly acquired Automatic Tool and Connector Co. operations and increased international sales expenses in the Company's telephone station apparatus business.

Operating income from continuing operations increased $367,000 or 14%. Net other income decreased $19,000 from the 1995 period due to fluctuations in the value of the Company's marketable securities portfolio. The Company's effective income tax rate was 23% compared to 22% in the 1995 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. Income from continuing operations increased $233,000, or 11%.

Discontinued Operations

During 1996, the Company's Board of Directors concluded that the contract manufacturing business was no longer a strategic fit with the Company's plans for its domestic and international telecommunications business. Accordingly, the Company agreed to sell the assets (except cash and accounts receivable which totaled $2,818,000 at September 30, 1996) of Zercom Corporation (its contract manufacturing unit) to Nortech Systems, Inc. in exchange for $1,500,000 cash and a $5,000,000 five-year note. The transaction was completed November 4, 1996.

Contract manufacturing revenues for the nine month period ended September 30, 1996 declined $3,973,000 or 25% from the same period in 1995. The loss before income tax benefits for the 1996 nine months was $530,000 compared to income before taxes of $466,000 in 1995. The 1996 loss includes a $650,000 pre-tax charge against slow-moving electronic fishing products inventory.

Discontinued Operations (continued)
Revenues for the three month period ended September 30, 1996 declined $731,000 or 19% from the same period in 1995. Loss before income tax benefits for the 1996 three months was $33,000 compared to a $64,000 loss in 1995.

The Company has established a reserve for operating losses and losses on disposal of assets it expects to incur in the disposal of the segment. The total loss reserve established, net of associated income tax benefits of $133,000, is $393,000, which includes expected operating losses in the disposal period of $30,000.

Liquidity and Capital Commitments

At September 30, 1996 the Company's continuing operations held approximately $14,892,000 of cash compared to $11,704,000 at December 31, 1995. Working capital was $32,798,000 compared to $29,278,000 at December 31, 1995. The Company's current ratio was 4.7 to 1, unchanged from year end 1995.

Net cash provided by operating activities was $7,801,000 compared to $4,414,000 in the first nine months of 1995. Cash was utilized during the period to pay current liabilities, purchase new plant and equipment, pay dividends, purchase common stock and acquire Automatic Tool and Connector Co., Inc.

The Company's balance sheet remains strong, with stockholders' equity of $58,326,000 and no long-term debt. 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.

On August 5, 1996, the Company's Board of Directors authorized the purchase and retirement, from time to time, of up to 500,000 shares of the Company's common stock on the open market, or in private transactions consistent with overall market and financial conditions. The Company's cash reserves will be utilized to make the purchases. If all 500,000 shares are purchased and retired, it would reduce the number of the Company's currently outstanding shares by 5%. At September 30, 1996, the Company had purchased and retired 107,330 shares of common stock at a cost of $1,326,000.

On January 4, 1996, the Company acquired Automatic Tool and Connector Co., Inc. of Union, New Jersey, in exchange for $1,373,000 in cash and 112,676 shares of common stock. Automatic Tool and Connector Co. (ATC) is a manufacturer of high performance fiber optic connectors, interconnect devices and coaxial cable assemblies for the telecommunications, medical electronics, computer and other markets. The acquisition represents the Company's entrance into the market for fiber optic connectors, which is the fastest growing segment in the telecommunications connector market. ATC's sales for its 1995 fiscal year were approximately $3,200,000.

The acquisition of Automatic Tool and Connector Co. and the disposition of Zercom Corporation as well as other acquisitions and dispositions the Company has made over the past several years have served to expand and focus the Company's telecommunications product offerings and customer base in both U.S. and international markets. The Company is seeking to position itself in the marketplace as a growth oriented manufacturer of telecommunications connecting devices. The Company is continuing to search for acquisition candidates which fit the Company's target markets.

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 12, 1996

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