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 JUNE 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 July 31, 1996
Common Stock, par value $.05 per share	9,346,458

Total Pages (11) Exhibit Index at (NO EXHIBITS)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

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

Assets:	June 30 1996	December 31 1995
Current assets:		
<S>	<C>	<C>
Cash	$13,036,777	$12,198,455
Marketable securities	868,335	899,469
Receivables, net	12,323,056	10,931,382
Inventories - Note 2	18,612,946	19,522,963
Prepaid expenses	551,893	400,778
Deferred income taxes	1,409,000	1,188,000
Total current assets	46,802,007	45,141,047
Property, plant and equipment	27,377,665	25,762,350
less accumulated depreciation	(16,061,239)	(14,847,042)
Net property, plant and equipment	11,316,426	10,915,308
Other assets:		
Investments in mortgage backed and other securities	4,899,126	5,398,316
Excess of cost over net assets acquired	3,415,606	839,229
Deferred income taxes	461,047	461,047
Other assets	370,217	532,285
Total other assets	9,145,996	7,230,877
Total Assets	$67,264,429	$63,287,232
Liabilities and Stockholders' Equity:		
Current liabilities:		
Notes payable	$92,675	$146,923
Accounts payable	3,504,429	4,104,349
Accrued expenses	2,808,800	2,296,996
Dividends payable	747,717	642,838
Income taxes payable	1,926,709	2,020,550
Total current liabilities	9,080,330	9,211,656
Stockholders' Equity	58,184,099	54,075,576
Total Liabilities and Stockholders' Equity	$67,264,429	$63,287,232

See notes to consolidated financial statements.

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

	Three Months Ended March 31	Six Months Ended June 30

	1996	1995	1996	1995
Revenues:				
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Sales	$20,581,697	$21,866,017	$41,040,810	$46,671,964
Costs and expenses:				
Cost of sales	15,959,764	17,003,442	31,176,575	35,760,644
Selling, general and administrative expenses	3,273,913	2,149,999	6,137,463	5,166,773
Total costs and expenses	19,233,677	19,153,441	37,314,038	40,927,417
Operating income	1,348,020	2,712,576	3,726,772	5,744,547
Other income and (expenses):				
Investment income	181,221	216,353	328,597	521,063
Interest expense	(5,627)	(14,242)	(12,080)	(27,921)
Other income, net	175,594	202,111	316,517	493,142
Income before income taxes	1,523,614	2,914,687	4,043,289	6,237,689
Income taxes (Note 3)	225,000	620,000	700,000	1,420,000
Net income	$1,298,614	$2,294,687	$3,343,289	$4,817,689
Net income per share	$ .14	$ .25	$ .36	$ .53
Average common and common equivalent shares outstanding	9,425,000	9,232,000	9,412,000	9,171,000

See notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Advances to ESOP	Cumulative Translation Adjustment	Tota
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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				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				3,343,289			3,343,289
Shareholder dividends				(1,399,292)			(1,399,292)
Issuance of common stock under Employee Stock Option Plan	50,381	2,519	449,652				452,171
Issuance of common stock to acquire Automatic Tool and Connector Co.	112,676	5,634	1,712,675				1,718,309
Cumulative translation adjustment						(5,954)	(5,954)
BALANCE at June 30, 1996	9,346,458	$467,323	$21,868,452	$36,084,432	0	($236,108)	$58,184,099

See notes to consolidated financial statements.

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

	Six Months Ended June 30	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$3,343,289	$4,817,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,502,722	1,275,066
Adjustment to marketable securities reserve	31,134	(120,922)
Changes in assets and liabilities:		
Decrease in marketable securities		40,000
Increase in accounts receivable	(896,895)	(801,088)
Decrease (increase) in inventory	1,359,141	(131,123)
Decrease (increase) in prepaid expenses	(138,557)	76,067
Increase in deferred taxes	(221,000)	
Decrease in accounts payable	(1,345,504)	(1,333,139)
Increase (decrease) in accrued expenses	517,031	(23,825)
Increase (decrease) in income taxes payable	(93,733)	(773,446)
Net cash provided by (used in) operating activities	4,057,628	3,025,279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,673,488)	(2,431,295)
Decrease in mortgage backed and other investment securities	498,259	11,240

Decrease in other assets	162,185	133,393
Payment for purchase of Austin Taylor Communications, Ltd.	(135,131)	
Payment for purchase of Automatic Tool and Connector Company, Inc., net of cash acquired	(1,178,008)	
Net cash used in investing activities	(2,326,183)	(2,286,662)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(53,637)	(95,833)
Dividends paid	(1,294,413)	(1,080,641)
Proceeds from issuance of common stock	452,171	1,085,462
Purchases of Communications Systems, Inc. common stock		(220,332)
Net cash used in financing activities	(895,879)	(311,344)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	2,756	37,609
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	838,322	464,882
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,198,455	8,829,776
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$13,036,777	$9,294,658
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$793,841	$2,193,520
Interest paid	12,080	27,921

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 stockholders' equity as of June 30, 1996, the statements of income for the three and six month periods ended June 30, 1996, and 1995 and the statements of cash flows for the six month periods ended June 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 June 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 June 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:
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<S>	June 30 1996 <C>	December 31 1995 <C>
Finished Goods	$5,130,893	$5,475,458
Raw Materials	13,482,053	14,047,505
Total	$18,612,946	$19,522,963

</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 June 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 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.

NOTE 5 - 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. 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, were included in Company operations beginning January 4, 1996.

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

Six Months Ended June 30, 1996 Compared to
Six Months Ended June 30, 1995

Consolidated revenues decreased $5,631,000 or 12% from the 1995 period. Telephone station apparatus revenue decreased $2,389,000 or 7%. Apparatus sales to domestic (U.S. and Puerto Rico) customers decreased $35,000. The domestic sales decrease was due to lower sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) which fell $1,707,000 or 11%. Reduced shipments to this market segment were attributed to customer inventory overstocks and reduced construction activity in the first quarter of 1996. Sales to electrical distributors and original equipment manufacturers decreased $794,000 or 24%. Sales to retailers decreased $650,000 or 22%. Lower sales to these segments were offset by increased sales to other customers (up 1,232,000 or 33%) and by sales of fiber optic connectors by Automatic Tool and Connector Co.($2,081,000 in the first six months of 1996), which the Company acquired in January, 1996.

Sales of telephone station apparatus to international customers decreased $2,353,000 or 27%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $1,957,000 or 27% due to the phase-out of certain products previously sold to British Telecom. Shipments of new products intended to replace this business have been delayed into the third and fourth quarters of 1996. U.S. export sales decreased $462,000 or 42%. Sales in Canada increased $65,000 or 13%.

Contract manufacturing sales decreased $3,243,000 or 27%. Sales to Thermo-King, which was the segment's principal customer, declined $3,236,000 or 62%, 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 22% of contract manufacturing sales in the 1996 period compared to 43% of sales in the 1995 period. Sales of multi-function display units used by a major watercraft manufacturer increased $207,000 or 9%. Sales of electronic fishing products decreased $428,000 or 47%.

Gross margin as a percentage of apparatus sales was 29% compared to 27% in the first half 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 to 17% from 19% in the 1995 period due to increased raw material costs and unfavorable overhead absorption caused by reduced production volume. Gross margin on contract manufacturing sales, before inventory reserve adjustments, was 14% unchanged from the 1995 period. During the 1996 period, the Company established a $650,000 reserve against slow-moving electronic fishing products inventory held by its contract manufacturing business.

Selling, general and administrative expenses increased $971,000 or 19% 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.

Consolidated operating income decreased $2,018,000 or 35%. Net other income decreased $177,000 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 17% compared to 23% 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. The Company's tax rate was higher 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 decreased $1,474,000, or 31%.

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

Consolidated revenues decreased $1,284,000 or 6% from the 1995 period. Telephone station apparatus revenue decreased $160,000 or 1%. Apparatus sales to domestic (U.S. and Puerto Rico) customers increased $1,448,000 or 12%. The domestic sales increase was due to the acquisition of Automatic Tool and Connector Co., (which added $1,001,000 to sales during the 1996 period) and sales to other customers (principally distributors serving non-RBOC customers) which increased $1,077,000 or 57%.. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $97,000 or 1%. Sales to electrical distributors and original equipment manufacturers decreased $452,000 or 29%. Sales to retailers decreased $273,000 or 18%.

Sales of telephone station apparatus to international customers decreased $1,608,000 or 35%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $1,109,000 or 32% due to the phase-out of certain products previously sold to British Telecom. U.S. export sales decreased $570,000 or 69%. Sales in Canada increased $71,000 or 29%.

Contract manufacturing sales decreased $1,124,000 or 21%. Sales to Thermo-King, which was the segment's principal customer, declined $994,000 or 56%, 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 19% of contract manufacturing sales in the 1996 period compared to 34% of sales in the 1995 period. Sales of multi-function display units used by a major watercraft manufacturer increased $12,000 or 1%. Sales of electronic fishing products decreased $266,000 or 59%.

Gross margin as a percentage of apparatus sales was 28% compared to 24% in the second 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 to 12% in the 1996 period due to increased raw material costs and unfavorable overhead absorption caused by reduced production volume. Gross margin on contract manufacturing sales, before inventory reserve adjustments, was 16% unchanged from the 1995 period. During the 1996 period, the Company established a $650,000 reserve against slow-moving electronic fishing products inventory held by its contract manufacturing business.

Selling, general and administrative expenses increased $1,126,000 or 52% 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.

Consolidated operating income decreased $1,367,000 or 50%. Net other income decreased $27,000 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 15% compared to 21% 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. The Company's tax rate was higher 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 decreased $998,000, or 43%.

Liquidity and Capital Commitments

At June 30, 1996 the Company had approximately $13,037,000 in cash compared to $12,198,000 at December 31, 1995. Working capital was $37,722,000 compared to $35,929,000 at December 31, 1995. The Company's current ratio was 5.2 to 1, compared to 4.9 to 1 at year end 1995.

Net cash provided by operating activities was $4,058,000 compared to $3,025,000 in the first half of 1995. The Company expects its operating cash flows for the full year to approximate the results of 1995, which produced cash from operations of $6,983,000. Cash was utilized during the period to pay current liabilities, purchase new plant and equipment, pay dividends and acquire Automatic Tool and Connector Co., Inc.

The Company's balance sheet remains strong, with stockholders' equity of $58,184,000 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%.

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.

This acquisition, as well as other acquisitions and dispositions the Company has made over the past several years (including the 1992 acquisition of Austin Taylor Communications, Ltd.), have served to expand the Company's 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 - 3. Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Shareholders of the Registrant was held on May 14, 1996 in Minneapolis, MN. The total number of shares outstanding and entitled to vote at the meeting was 9,311,210 of which 8,627,266 were present either in person or by proxy. By a vote of 8,612,288 in favor, 14,978 abstaining, shareholders reelected Board Members Edwin C. Freeman, Edward E. Strickland and John C. Ortman to three year terms expiring at the 1999 Annual Meeting of Shareholders.

The Board of Directors appointed Fredrick Green to fill the unexpired term of Board Member C.A. Anderson, who passed away in February, 1996. Mr. Green's term will expire at the 1997 Annual Meeting of Shareholders.

Other Board Members continuing in office are Paul J. Anderson and Wayne E. Sampson (whose terms expire at the 1997 Annual Meeting of Shareholders) and Curtis A. Sampson and Joseph W. Parris (whose terms expire at the 1998 Annual Meeting of Shareholders).

Items 5 - 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: August 14, 1996

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