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, 1997

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, 1997
Common Stock, par value $.05 per share	9,322,835

Total Pages (12) 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 1997	December 31 1996
Current assets:		
<S>	<C>	<C>
Cash	$ 23,644,909	$ 17,799,398
Marketable securities	796,100	889,782
Receivables, net	12,213,181	10,375,080
Inventories - Note 3	18,105,242	13,861,914
Prepaid expenses	424,905	460,692
Deferred income taxes	1,062,283	792,000
Total current assets	56,246,620	44,178,866
Property, plant and equipment	26,072,307	24,299,704
less accumulated depreciation	(16,845,146)	(15,335,114)
Net property, plant and equipment	9,227,161	8,964,590
Net assets of discontinued operations		536,679
Other assets:		
Investments in mortgage backed and other securities	3,669,383	4,487,934
Excess of cost over net assets acquired	2,972,751	3,166,422
Deferred income taxes	835,047	835,047
Notes receivable from sale of assets of discontinued operations	4,665,390	4,866,597
Other assets	1,059,483	559,979
Total other assets	13,202,054	13,915,979
Total Assets	$ 78,675,835	$ 67,596,114
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 4,429,178	$ 3,164,406
Accrued expenses	3,464,539	2,622,853
Dividends payable	837,498	728,585
Income taxes payable	3,051,549	2,064,792
Total current liabilities	11,782,764	8,580,636
Stockholders' Equity	66,893,071	59,015,478
Total Liabilities and Stockholders' Equity	$ 78,675,835	$ 67,596,114

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

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	1997	1996	1997	1996
Revenues from continuing operations:				
<S>	<C>	<C>	<C>	<C>
Sales	$ 19,790,212	$ 18,390,779	$ 56,787,475	$ 50,618,464
Costs and expenses:				
Cost of sales	13,015,205	12,529,048	38,674,614	35,504,434
Selling, general and administrative expenses	2,742,209	2,869,937	8,353,346	7,884,875
Total costs and expenses	15,757,414	15,398,985	47,027,960	43,389,309
Operating income from continuing operations	4,032,798	2,991,794	9,759,515	7,229,155
Other income and (expenses):				
Investment income	456,567	175,506	1,231,813	490,719
Interest expense		(4,492)		(16,499)
Other income, net	456,567	171,014	1,231,813	474,220
Income from continuing operations before income taxes	4,489,365	3,162,808	10,991,328	7,703,375
Income taxes (Note 4)	1,335,000	730,000	2,785,000	1,600,000
Income from continuing operations	3,154,365	2,432,808	8,206,328	6,103,375
Loss from discontinued operations, net of income taxes		(27,846)		(355,124)
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 income	$ 3,154,365	$ 2,011,962	$ 8,206,328	$ 5,355,251
Net income per share:				
Continuing operations	$ .33	$ .26	$ .88	$ .65
Discontinued operations		(.05)		(.08)
	$ .33	$ .21	$ .88	$ .57
Average common and common equivalent shares outstanding	9,444,000	9,371,000	9,299,000	9,393,000

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	Cumulative Translation Adjustment	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE at December 31, 1995	9,183,401	$ 459,170	$ 19,706,125	$ 34,140,435	$ (230,154)	$ 54,075,576
Net Income				8,232,531		8,232,531
Shareholder dividends				(2,868,154)		(2,868,154)
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	52,381	2,619	466,427			469,046
Tax benefit from nonqualified employee stock options			12,701			12,701
Purchase of Communications Systems Inc. common stock	(255,495)	(12,775)	(601,381)	(2,648,527)		(3,262,683)
Issuance of common stock to acquire Automatic Tool and Connector Co.	112,676	5,634	1,712,675			1,718,309
Cumulative translation adjustment					479,629	479,629
BALANCE at December 31, 1996	9,107,309	455,365	21,454,353	36,856,285	249,475	59,015,478
Net Income				8,206,328		8,206,328
Shareholder dividends				(2,400,904)		(2,400,904)
Issuance of common stock under Employee Stock Purchase Plan	16,622	831	182,842			183,673
Issuance of common stock to Employee Stock Ownership Plan	20,870	1,044	298,956			300,000
Issuance of common stock under Employee Stock Option Plan	162,334	8,117	1,817,892			1,826,009
Cumulative translation adjustment					(237,513)	(237,513)
BALANCE at September 30, 1997	9,307,135	$ 465,357	$ 23,754,043	$ 42,661,709	$ 11,962	$ 66,893,071

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	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 8,206,328	$ 5,355,251
Add: Loss from discontinued operations		748,124
Income from continuing operations	8,206,328	6,103,375
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,872,513	1,832,389
Adjustment to marketable securities reserve	(34,459)	39,579
Loss on foreign exchange	73,696	
Changes in assets and liabilities:		
Decrease in marketable securities	128,141	
Increase in accounts receivable	(1,859,360)	(2,101,972)
Decrease (increase) in inventory	(4,337,843)	2,078,504
Decrease (increase) in prepaid expenses	32,717	(260,366)
Increase in deferred income taxes	(269,310)	
Increase (decrease) in accounts payable	1,364,665	(786,495)
Increase in accrued expenses	1,177,422	304,049
Increase (decrease) in income taxes payable	992,716	591,591
Net cash provided by operating activities	7,347,226	7,800,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,981,448)	(1,576,342)
Decrease in mortgage backed and other investment securities	818,551	755,171
Decrease (increase) in other assets	(600,910)	190,377
Changes in assets and liabilities of discontinued		

operations	536,679	142,513
Decrease in notes receivable from discontinued operations	201,207	
Payment for purchase of Austin Taylor Communications, Ltd.	(79,947)	(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	(1,105,868)	(1,801,420)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable		(58,969)
Dividends paid	(2,291,991)	(2,042,130)
Proceeds from issuance of common stock	2,009,682	610,694
Purchases of Communications Systems, Inc. common stock		(1,326,412)
Net cash used in financing activities	(282,309)	(2,816,817)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(113,538)	6,229
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,845,511	3,188,646
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,799,398	11,703,536
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,644,909	$ 14,892,182
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 1,786,294	$ 1,004,628
Interest paid		16,499

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, 1997, the statements of income for the three and nine month periods ended September 30, 1997 and 1996, and the statements of cash flows for the nine month periods ended September 30, 1997 and 1996 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, 1997 and 1996 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, 1996 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.

In February, 1997 the Company issued 20,870 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 1996 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $300,000 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

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 $4.9 million term note secured by Zercom's assets.

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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<S>	Three Months Ended September 30, 1996 <C>	Nine Months Ended September 30, 1996 <C>
Sales	$ 3,033,690	$ 11,846,815

Costs and expenses	3,077,965	12,401,679
Interest income, net	11,429	24,740
Loss before income taxes	(32,846)	(530,124)
Income tax benefit	(5,000)	(175,000)
Loss from operations	27,846)	(355,124)
Loss on disposal of discontinued operations, including provision of $30,000 for operating losses during disposal period, net of tax benefits of $133,000	(393,000)	(393,000)
	$ (420,846)	$ (748,124)

</TABLE>

Net assets of discontinued Zercom operations at December 31, 1996 consisted of:

Accounts receivable	$ 567,679
Deferred income taxes	269,000
Accrued expenses	(300,000)
Net assets of discontinued operations	$ 536,679

NOTE 3 - INVENTORIES

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

	September 30 1997	December 31 1996
Finished Goods	$ 4,928,649	$ 3,957,655
Raw Materials	13,176,593	9,904,259
Total	$ 18,105,242	$ 13,861,914

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, 1997 and 1996 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.

The Puerto Rico Bureau of Income Tax has examined the Company's tax returns for 1993, 1994 and 1995 and has proposed certain adjustments to taxable income which the Company is contesting. If the Bureau of Income Tax positions were to prevail, it could affect the Company's U.S. federal and state tax liabilities in those years, and have ramifications for future years income taxes. The Company believes this matter will be resolved with no material adverse effect on financial position or results of operations.

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.

The Financial Accounting Standards Board (FASB) has issued SFAS 128, "Earnings per Share" which requires public companies to present basic earnings per share and, if applicable, diluted earnings per share instead of primary and fully diluted earnings per share. SFAS 128 is effective for interim and annual periods ending after December 15, 1997. The new standard would have no material effect on the Company's net income per share for the periods ended September 30, 1997 and 1996.

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

Nine Months Ended September 30, 1997 Compared to
Nine Months Ended September 30, 1996

Revenues from continuing operations increased $6,169,000 or 12% from the 1996 period. Sales to domestic (U.S. and Puerto Rico) customers increased $4,428,000 or 11%. The sales increase was due to a 66% increase in sales of the Company's

CorroShield line of corrosion resistant products from the 1996 period. CorroShield products accounted for 37% of all shipments from U.S. plants in the 1997 period. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $2,268,000 or 9%. Sales to retailers increased $763,000 or 20% due to increased sales to Radio Shack stores. Sales to electrical distributors and original equipment manufacturers increased $1,458,000 or 16%.

Sales to international customers increased $1,741,000 or 17%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased $1,619,000 or 20% due to increased sales of metal street cabinets and cable television ("CATV") customer premise equipment to U.K. based customers. U.S. export sales, including sales to Canada, increased $122,000 or 6%.

Gross margin as a percentage of sales was 32% compared to 30% in the 1996 period. Margin percentages in U.S. plants were 35% compared to 32% in 1996. Improvements were due to volume drive reductions in manufacturing overhead percentages and reductions of unfavorable production overhead variances, which offset higher raw material costs. Margins earned on Austin Taylor products improved to 19% from 18% in the 1996 period for the same reasons.

Selling, general and administrative expenses increased $468,000 or 6% from the 1996 period. The increase was due to increased sales expenses associated with efforts to increase sales of the Company's data products and develop export markets for telephone station apparatus products. These increases offset selling and administrative expense reductions at Austin Taylor.

Operating income from continuing operations increased $2,530,000 or 35%. Investment income, net of interest expense, increased $758,000 from the 1996 period due to higher interest rates earned on investments and increases in investable cash balances. The Company's effective income tax rate was 25% compared to 21% in the 1996 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 effective tax rate increased because income from Puerto Rico in the 1997 period exceeded the tax credits available to the Company to completely shelter it from U.S tax. Income from continuing operations increased $2,103,000, or 38%. Loss from discontinued operations was $748,000 in the 1996 period. Net income increased $2,851,000, or 53%.

Three Months Ended September 30, 1997 Compared to
Three Months Ended September 30, 1996

Revenues from continuing operations increased $1,399,000 or 8% from the 1996 period. Sales to domestic (U.S. and Puerto Rico) customers increased $1,147,000 or 8%. The sales increase was due to an 47% increase in sales of the Company's CorroShield line of corrosion resistant products from the 1996 period. CorroShield products accounted for 38% of all shipments from U.S. plants in the 1997 period. Sales to electrical distributors and original equipment manufacturers increased $854,000 or 46%, due to increased sales of CorroShield products to distributors. Sales to retailers increased $446,000 or 32% due to strong sales to Radio Shack stores. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) decreased $208,000 or 2%.

Sales to international customers increased $252,000 or 7%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased $275,000 or 9% due to increased sales of metal street cabinets and CATV customer premise equipment to U.K. based customers. U.S. export sales, including sales to Canada, decreased $23,000 or 3%.

Gross margin as a percentage of sales was 34% compared to 32% in the 1996 period. Margin percentages in U.S. plants were 37% compared to 34% in 1996. . Improvements were due to volume drive reductions in manufacturing overhead percentages and reductions of unfavorable production overhead variances, which offset higher raw material costs. Margins earned on Austin Taylor products declined to 19% from 20% in the 1996 period due to higher raw material costs.

Selling, general and administrative expenses decreased $128,000 or 4% from the 1996 period. The decrease was due to lower selling and administrative expenses at Austin Taylor and lower corporate administrative expenses, which offset increased U.S. apparatus sales expenses for data products and export products.

Operating income from continuing operations increased $1,041,000 or 37%. Investment income, net of interest expense, increased $286,000 from the 1996 period due to higher interest rates earned on investments and increases in investable cash balances. The Company's effective income tax rate was 30% compared to 23% in the 1996 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 effective tax rate increased because income from Puerto Rico in the 1997 period exceeded the tax credits available to the Company to completely shelter it from U.S tax. Income from continuing operations increased $722,000, or 30%. Loss from discontinued operations was $421,000 in the 1996 period. Net income increased $1,142,000, or 57%.

Liquidity and Capital Commitments

At September 30, 1997, the Company held approximately $23,645,000 of cash compared to $17,799,000 at December 31, 1996. Working capital was $44,464,000 compared to $35,598,000 at December 31, 1996. The Company's current ratio was 4.8 to 1 compared to 5.1 to 1 at December 31, 1996. In addition to its cash and working capital balances, the Company also holds investments in long-term securities and notes receivable totaling $8,335,000.

Net cash provided by operating activities was $7,347,000 compared to $7,801,000 in the first nine months of 1996. Cash was utilized during the period to finance increases in accounts receivable and inventory, purchase new plant and equipment and pay dividends. The Company received $2,010,000 of cash in the 1997 period from issuance of its common stock, mostly due to exercises of employee stock options.

Under provisions of the Small Business Job Protection Act of 1996, the possessions tax credit, which shelters the Company's Puerto Rico income from U.S. income tax, was repealed for years after 1995. However, companies like CSI which currently qualify for the credit, may continue to claim the credit until 2005, subject to certain limitations. As of July 1, 1996, the credit no longer applied to investment income earned in Puerto Rico. The credit will continue to apply to business income earned in Puerto Rico through 2001. For the years 2002 to 2005, the amount of Puerto Rico business income eligible for the credit will be limited to an inflation adjusted amount based on Puerto Rico business income earned from 1990 to 1994. The possessions tax credit has a materially favorable effect on the Company's income tax expense. Had the Company incurred income tax expense on Puerto Rico operations in 1997 at the full U.S. rate, income tax expense would have increased by approximately $1,800,000.

The Company's balance sheet remains strong, with stockholders' equity of $66,893,000 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.

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 with products that will enable the Company to better serve its target markets.

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Statements regarding the Company's anticipated performance in future periods are forward looking and involve risks and uncertainties, including but not limited to: buying patterns of the Regional Bell Operating Companies and other customers, competitive products, and other factors.

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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 13, 1997

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