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, 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 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 July 31, 1997
Common Stock, par value $.05 per share	9,205,713

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

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

<TABLE>
<CAPTION>

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

Assets:	June 30 1997	December 31 1996
Current assets:		
<S>	<C>	<C>
Cash	$ 20,715,678	$ 17,799,398
Marketable securities	786,325	889,782
Receivables, net	11,665,420	10,375,080
Inventories - Note 3	16,055,091	13,861,914
Prepaid expenses	274,756	460,692
Deferred income taxes	1,062,283	792,000
Total current assets	50,559,553	44,178,866
Property, plant and equipment	25,793,418	24,299,704
less accumulated depreciation	(16,355,320)	(15,335,114)
Net property, plant and equipment	9,438,098	8,964,590
Net assets of discontinued operations		536,679
Other assets:		
Investments in mortgage backed and other securities	3,905,368	4,487,934
Excess of cost over net assets acquired	3,063,957	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	918,587	559,979
Total other assets	13,388,349	13,915,979
Total Assets	$ 73,386,000	$ 67,596,114
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 3,546,794	$ 3,164,406
Accrued expenses	3,204,624	2,622,853
Dividends payable	828,109	728,585
Income taxes payable	2,493,047	2,064,792
Total current liabilities	10,072,574	8,580,636
Stockholders' Equity	63,313,426	59,015,478
Total Liabilities and Stockholders'Equity	$ 73,386,000	$ 67,596,114

See notes to consolidated financial statements.

</TABLE>

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

<TABLE>
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	Three Months Ended June 30		Six Months Ended June 30	
	1997	1996	1997	1996
Revenues from continuing operations:				
<S>	<C>	<C>	<C>	<C>
Sales	$ 20,181,244	$ 16,433,864	$ 36,997,263	$ 32,227,685
Costs and expenses:				
Cost of sales	13,834,378	11,812,722	25,659,409	22,975,386
Selling, general and administrative expenses	2,987,631	2,696,442	5,611,137	5,014,938
Total costs and expenses	16,822,009	14,509,164	31,270,546	27,990,324
Operating income from continuing operations	3,359,235	1,924,700	5,726,717	4,237,361
Other income and (expenses):				
Investment income	399,159	173,159	775,246	315,213
Interest expense		(5,609)		(12,007)
Other income, net	399,159	167,550	775,246	303,206
Income from continuing operations before income taxes	3,758,394	2,092,250	6,501,963	4,540,567
Income taxes (Note 4)	875,000	425,000	1,450,000	870,000
Income from continuing operations	2,883,394	1,667,250	5,051,963	3,670,567
Income from discontinued operations, net of income taxes		(368,636)		(327,278)
Net income	$ 2,883,394	$ 1,298,614	$ 5,051,963	$ 3,343,289
Net income per share:				
Continuing operations	$ .31	$ .18	$ .55	$ .39
Discontinued operations		(.04)		(.03)
	$ .31	$ .14	$ .55	$ .36
Average common and common equivalent shares outstanding	9,259,000	9,425,000	9,234,000	9,412,000

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
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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				5,051,963		5,051,963
Shareholder dividends				(1,563,406)		(1,563,406)
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	73,034	3,652	665,657			669,309
Cumulative translation adjustment					(159,918)	(159,918)
BALANCE at June 30, 1997	9,201,213	$460,061	$22,418,966	$40,344,842	$89,557	$63,313,426

See notes to consolidated financial statements.
</TABLE>

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

	Six Months Ended June 30	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 5,051,963	$ 3,343,289
Add: Loss from discontinued operations		327,278
Income from continuing operations	5,051,963	3,670,567
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,246,477	1,219,550
Adjustment to marketable securities reserve	(24,684)	31,134
Changes in assets and liabilities:		
Decrease in marketable securities	128,141	
Increase in accounts receivable	(1,250,215)	(977,050)
Decrease (increase) in inventory	(2,236,126)	576,564
Decrease (increase) in prepaid expenses	184,692	(191,416)
Increase in deferred income taxes	(269,643)	(221,000)
Increase (decrease) in accounts payable	431,064	(1,170,408)
Increase in accrued expenses	594,946	394,610
Increase (decrease) in income taxes payable	426,952	(93,733)
Net cash provided by operating activities	4,283,567	3,238,818
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,601,178)	(1,310,857)
Decrease in mortgage backed and other investment securities	582,566	498,259
Decrease (increase) in other assets	(458,039)	162,185

Changes in assets and liabilities of discontinued operations	536,679	23,128
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	(818,712)	(1,940,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable		(47,387)
Dividends paid	(1,463,882)	(1,294,413)
Proceeds from issuance of common stock	969,309	452,171
Net cash used in financing activities	(494,573)	(889,629)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(54,002)	2,756
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,916,280	411,521
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,799,398	11,703,536
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,715,678	$ 12,115,057
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 1,010,076	$ 793,841
Interest paid	--	12,007

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 June 30, 1997, the statements of income for the three and six month periods ended June 30, 1997 and 1996, and the statements of cash flows for the six month periods ended June 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 June 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 June 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 $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:

<TABLE>
<CAPTION>

<S>	Three Months Ended June 30, 1996 <C>	Six Months Ended June 30, 1996 <C>
Sales	$ 4,147,833	$ 8,813,125
Costs and expenses	4,724,513	9,323,714
Interest income, net	8,044	13,311
Loss before income taxes	(568,636)	(497,278)
Income tax benefit	(200,000)	(170,000)

Net loss	$ (368,636)	$ (327,278)

</TABLE>

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

<TABLE>

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

</TABLE>

NOTE 3 - INVENTORIES

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

<TABLE>
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	June 30 1997	December 31 1996
Finished Goods	$ 4,850,001	$ 3,957,655
Raw Materials	11,205,090	9,904,259
Total	$ 16,055,091	$ 13,861,914

</TABLE>

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 June 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.

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 effect on the Company's net income per share for the periods ended June 30, 1997 and 1996.

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

Effective January 4, 1996, the Company purchased all the capital stock of Automatic Tool and Connector Co., Inc. for $3,191,000, consisting of $1,473,000 of cash and 112,676 shares of the Company's common stock. The fair value of assets acquired in the transaction was $4,063,000 (which includes excess of cost over net assets acquired of $2,864,000, which is being amortized over ten years on a straight line basis) and liabilities of $872,000 were assumed. Results of Automatic Tool, which are 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

Six Months Ended June 30, 1997 Compared to
Six Months Ended June 30, 1996

Revenues from continuing operations increased $4,770,000 or 15% from the 1996 period. Sales to domestic (U.S. and Puerto Rico) customers increased $3,280,000 or 13%. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $2,476,000 or 15%. The sales increase was due to a 78% increase in sales of the Company's CorroShield line of corrosion resistant products from the 1996 period. CorroShield products accounted for 36% of all shipments from U.S. plants in the 1997 period. Sales to retailers increased $317,000 or 14% due to increased sales to Radio Shack stores. Sales to electrical distributors and original equipment manufacturers increased $604,000 or 10%, due to increased sales of data products and increased sales of voice products to distributors.

Sales to international customers increased $1,489,000 or 22%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased $1,344,000 or 25% 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 $145,000 or 10%.

Gross margin as a percentage of sales was 31% compared to 29% in the 1996 period. Margin percentages in U.S. plants were 33% compared to 31% in 1996. Improvements were due to volume drive reductions in manufacturing overhead percentages, which offset higher raw material costs. Margins earned on Austin Taylor products improved to 19% from 17% in the 1996 period for the same reasons.

Selling, general and administrative expenses increased $596,000 or 12% 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.

Operating income from continuing operations increased $1,489,000 or 35%. Investment income, net of interest expense, increased $472,000 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 22% compared to 19% 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 $1,381,000, or 38%. Loss from discontinued operations was $327,000 in the 1996 period. Net income increased $1,709,000, or 51%.

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

Revenues from continuing operations increased $3,747,000 or 23% from the 1996 period. Sales to domestic (U.S. and Puerto Rico) customers increased $2,222,000 or 17%. Sales to the Big 8 telephone companies (the seven Regional Bell Operating Companies and GTE) increased $1,367,000 or 15%. The sales increase was due to an 85% increase in sales of the Company's CorroShield line of corrosion resistant products from the 1996 period. A portion of the increased CorroShield volume was due to shipments scheduled for March which were delayed due to inventory supply problems. CorroShield products accounted for 40% of all shipments from U.S. plants in the 1997 period. Sales to electrical distributors and original equipment manufacturers increased $1,108,000 or 46%, due to increased sales of data products and increased sales of CorroShield products to distributors. Sales to retailers decreased $44,000 or 3%.

Sales to international customers increased $1,525,000 or 50%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, increased $1,127,000 or 48% 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, increased $398,000 or 57% due to increased export sales of CorroShield products.

Gross margin as a percentage of sales was 31% compared to 28% in the 1996 period. Margin percentages in U.S. plants were 34% compared to 31% in 1996. Improvements were due to volume drive reductions in manufacturing overhead percentages, which offset higher raw material costs. Margins earned on Austin Taylor products improved to 19% from 12% in the 1996 period for the same reasons.

Selling, general and administrative expenses increased $291,000 or 11% 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.

Operating income from continuing operations increased $1,435,000 or 75%. Investment income, net of interest expense, increased $232,000 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 23% compared to 20% 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 $1,216,000, or 73%. Loss from discontinued operations was $369,000 in the 1996 period. Net income increased $1,585,000, or 122%.

Liquidity and Capital Commitments

At June 30, 1997, the Company held approximately $20,716,000 of cash compared to $17,799,000 at December 31, 1996. Working capital was $40,487,000 compared to $35,598,000 at December 31, 1996. The Company's current ratio was 5.0 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 $8,571,000.

Net cash provided by operating activities was $4,286,000 compared to $3,239,000 in the first six 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.

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 $1,200,000.

The Company's balance sheet remains strong, with stockholders' equity of $63,313,000 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.

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 22, 1997 in Minneapolis, MN. The total number of shares outstanding and entitled to vote at the meeting was 9,191,213 of which 8,584,389 were present either in person or by proxy. Shareholders reelected Board Members Paul J. Anderson, Wayne E. Sampson and Frederick M. Green to three year terms expiring at the 2000 Annual Meeting of Shareholders. Shareholders also elected Luella Gross Goldberg and Gerald D. Pint to newly created Board positions. Ms. Goldberg's term expires at the 1999 Annual Meeting of Shareholders and Mr. Pint's term expires at the 1998 Annual Meeting of Shareholders. The vote in favor of electing these Board Members is summarized below.
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	In Favor	Abstaining

<S> <C> <C>

Paul J. Anderson	8,565,189	19,200
Wayne E. Sampson	8,519,201	65,188
Frederick M. Green	8,565,889	18,500
Luella Gross Goldberg	8,563,989	20,400
Gerald D. Pint	8,565,489	18,900

</TABLE>

Other Board Members continuing in office are Curtis A. Sampson and Joseph W. Parris (whose terms expire at the 1998 Annual Meeting of Shareholders) and Edwin C. Freeman, Edward E. Strickland and John C. Ortman (whose terms expire at the 1999 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 13, 1997

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