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 MARCH 31, 1998

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 April 30, 1998
Common Stock, par value $.05 per share	9,138,652

Total Pages (10) 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:	March 31 1998	December 31 1997
Current assets:		
<S>	<C>	<C>
Cash	$ 24,237,579	$ 17,942,315
Investments in U.S. Treasury securities		5,249,314
Marketable securities	776,175	802,045
Receivables, net	10,976,891	12,571,511
Inventories - Note 3	19,748,131	18,438,531
Prepaid expenses	398,509	684,221
Deferred income taxes	1,080,000	1,080,000
Total current assets	57,217,285	56,767,937
Property, plant and equipment	27,737,685	26,682,575
less accumulated depreciation	(17,620,729)	(17,007,714)
Net property, plant and equipment	10,116,956	9,674,861
Other assets:		
Excess of cost over net assets acquired	2,790,338	2,881,544
Investments in mortgage backed and other securities	2,922,694	3,356,568
Deferred income taxes	114,047	114,047
Notes receivable from sale of assets of discontinued operations	4,557,767	4,557,767
Other assets	632,558	165,204
Total other assets	11,017,404	11,075,130
Total Assets	$ 78,351,645	$ 77,517,928
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 3,076,111	$ 2,770,628
Accrued expenses	3,978,719	3,030,736
Dividends payable	837,419	839,399
Income taxes payable	1,530,980	1,613,469
Total current liabilities	9,423,229	8,254,232
Stockholders' Equity	68,928,416	69,263,696
Total Liabilities and Stockholders' Equity	$ 78,351,645	$ 77,517,928

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	
	1998	1997
<S>	<C>	<C>
Sales	$ 17,486,063	$ 16,816,019
Costs and expenses:		
Cost of sales	12,242,094	11,825,031
Selling, general and administrative expenses	2,958,377	2,623,506
Total costs and expenses	15,200,471	14,448,537
Operating income	2,285,592	2,367,482
Other income and (expenses):		
Investment income	459,892	376,992
Interest expense	(1,261)	(935)
Other income, net	458,631	376,057
Income before income taxes	2,744,223	2,743,539
Income taxes (Note 4)	550,000	575,000
Net income	$ 2,194,223	$ 2,168,539
Basic net income per share	$ .24	$ .24
Diluted net income per share	$ .23	$ .24
Average shares outstanding:		
Weighted average number of common shares outstanding	9,321,576	9,145,059
Dilutive effect of stock options outstanding after application of treasury stock method	97,061	62,787
	9,418,637	9,207,846

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	Cumulative Translation Adjustment	Stock Option Notes Receivable	Total
	Shares	Amount					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE at December 31, 1996	9,107,309	$ 455,365	$ 21,454,353	$ 36,856,285	$ 249,475	$ -	$ 59,015,478
Net income				10,936,873			10,936,873
Shareholder dividends				(3,240,303)			(3,240,303)
Issuance of common stock under Employee Stock Purchase Plan	16,622	831	182,843				183,674
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	181,851	9,093	2,045,715				2,054,808
Tax benefit from non qualified employee stock options			150,904				

							150,904
Cumulative translation adjustment					(137,738)		(137,738)
BALANCE at December 31, 1997	9,326,652	466,333	24,132,771	44,552,855	111,737	-	69,263,696
Net income				2,194,223			2,194,223
Shareholder dividends				(837,419)			(837,419)
Issuance of common stock under Employee Stock Option Plan	65,000	3,250	661,387				664,637
Issuance of notes receivable for stock options						(338,850)	(338,850)
Purchase of Communications Systems, Inc. common stock	(123,900)	(6,195)	(327,098)	(1,767,838)			(2,101,131)
Cumulative translation adjustment					83,260		83,260
BALANCE at March 31, 1998	9,267,752	$ 463,388	$ 24,467,060	$ 44,141,821	$ 194,997	$ (338,850)	$ 68,928,416

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

	Three Months Ended March 31	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 2,194,223	$ 2,168,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	677,812	627,392
Adjustment to marketable securities reserve	4,554	(20,091)
Changes in assets and liabilities:		
Decrease in marketable securities	21,316	
Decrease (increase) in accounts receivable	1,621,219	(1,186,292)
Increase in inventory	(1,285,723)	(1,468,915)
Decrease (increase) in prepaid expenses	287,386	(145,650)
Increase in deferred income taxes		(269,310)
Increase in accounts payable	282,969	644,700
Increase in accrued expenses	936,080	618
Increase (decrease) in income taxes payable	(85,423)	173,617
Net cash provided by operating activities	4,654,413	524,608
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,005,875)	(650,202)
Decrease in mortgage backed and other investment securities	433,874	182,590
Increase in other assets	(466,727)	

		(327,166)
Changes in assets and liabilities of discontinued operations		536,679
Decrease in U.S. Treasury securities	5,249,314	
Payment for purchase of Austin Taylor Communications, Ltd.		(79,947)
Net cash provided by (used in) investing activities	4,210,586	(338,046)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(839,399)	(728,585)
Proceeds from issuance of common stock	325,787	841,309
Purchases of Communications Systems, Inc. common stock	(2,101,131)	
Net cash provided by (used in) financing activities	(2,614,743)	112,724
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	45,008	(82,121)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,295,264	217,165
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,942,315	17,799,398
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 24,237,579	$ 18,016,563
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 633,340	$ 391,201
Interest paid	1,261	935

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 March 31, 1998, and the statements of income and statements of cash flows for the three month periods ended March 31, 1998 and 1997, 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 March 31, 1998 and 1997 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, 1997 Annual Report to Shareholders. The results of operations for the periods ended March 31 are not necessarily indicative of the operating results for the entire year.

Effective January 1, 1998, the Company has adopted the provisions of Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement establishes standards for reporting and presenting comprehensive income and its components in the financial statements. The Company's total comprehensive income for the three month periods ended March 31, 1998 and 1997 was $2,277,483 and $1,928,312, respectively.

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 - INVENTORIES

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

	March 31 1998	December 31 1997
Finished Goods	$ 5,923,706	$ 5,237,907
Raw Materials	13,824,425	13,200,624
Total	$ 19,748,131	$ 18,438,531

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 March 31, 1998 and 1997 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

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 Company has restated its net income per share for prior periods to conform with the new standard.

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options. Adoption of the new standard did not have a material effect on the Company's net income per share.

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

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Sales totaled $17,486,000, an increase of $670,000 or 4% from the 1997 period. Operating income was $2,286,000, a decrease of $82,000 or 3% from 1997. Sales to domestic (U.S. and Puerto Rico) customers increased $356,000 or 3%. Sales to electrical distributors and original equipment manufacturers increased $452,000 or 15%. Sales in Puerto Rico increased $240,000 or 44%. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies and GTE) decreased $610,000 or 7%. The decline in sales to this market was due to purchase pattern adjustments caused by the merger of two RBOCs and inventory overstocks at a third RBOC. Sales to retailers decreased $15,000 or 1%.

The sales increases were generated by a 28% increase in sales of the Company's CorroShield line of corrosion resistant connectors. CorroShield product sales totaled $5,642,000 in the 1998 period compared to $4,400,000 in 1997. Sales of conventional voice products declined $313,000 or 5%. The Company believes the sales decline of these products is due to customers converting to the CorroShield product. Sales of data products decreased $269,000 or 16%. Sales of fiber optic connector products decreased $169,000 or 17%.

Sales to international customers increased $314,000 or 9%. 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 $135,000 or 26% due to sales of CorroShield products to Caribbean customers.

Gross margin as a percentage of sales was 30%, unchanged from the 1997 period. Margin percentages in U.S. plants were 32% in each period. Margins earned on Austin Taylor products improved to 21% from 19% in the 1997 period.

Selling, general and administrative expenses increased $335,000 or 13% from the 1997 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.

Investment income, net of interest expense, increased $83,000 from the 1997 period due to higher interest rates earned on investments and increases in investable cash balances. The Company's effective income tax rate was 20% compared to 21% in the 1997 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. Net income increased $26,000, or 1%.

Liquidity and Capital Commitments

At March 31, 1998, the Company held approximately $24,238,000 of cash compared to $17,942,000 at December 31, 1997. Working capital was $47,794,000 compared to $48,514,000 at December 31, 1997. The Company's current ratio was 6.1 to 1 compared to 6.9 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 $7,480,000.

Net cash provided by operating activities was $4,654,000 compared to $525,000 in the first three months of 1997. Cash was utilized during the period to finance increased inventory levels, purchase new plant and equipment and pay dividends.

The Company's Board of Directors has authorized the purchase and retirement of up to 500,000 shares of the Company's common stock on the open market or in privately negotiated transactions consistent with overall market and financial conditions. At March 31, 1998, the Company had purchased and retired 123,900 shares of stock at a cost of $2,101,000. Subsequent to the end of the quarter, an additional 109,100 shares have been purchased and retired. The Company received $326,000 from stock issuances in the 1998 period due to exercise 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 1998 at the full U.S. rate, income tax expense would have increased by approximately $600,000.

The Company's balance sheet remains strong, with stockholders' equity of $68,928,000 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.

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.

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 /s/Paul N. Hanson

Paul N. Hanson
Vice President and

Chief Financial Officer

Date: May 14, 1998

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