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, 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 issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at August 7, 1998
Common Stock, par value $.05 per share	9,080,321

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

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

Assets:	June 30 1998	December 31 1997
Current assets:		
<S>	<C>	<C>
Cash	$ 19,680,673	$ 17,942,315
Investments in U.S. Treasury securities		5,249,314
Marketable securities	23,850	802,045
Receivables, net	12,398,119	12,571,511
Inventories - Note 2	20,491,809	18,438,531
Prepaid expenses	217,359	684,221
Deferred income taxes	1,080,000	1,080,000
Total current assets	53,891,810	56,767,937
Property, plant and equipment	28,780,692	26,682,575
less accumulated depreciation	(18,126,829)	(17,007,714)
Net property, plant and equipment	10,653,863	9,674,861
Other assets:		
Excess of cost over net assets acquired	2,699,132	2,881,544
Investments in mortgage backed and other securities	2,531,401	3,356,568
Deferred income taxes	114,047	114,047
Notes receivable from sale of assets of discontinued operations	4,357,767	4,557,767
Other assets	647,199	165,204
Total other assets	10,349,546	11,075,130
Total Assets	$ 74,895,219	$ 77,517,928
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 3,041,895	$ 2,770,628
Accrued expenses	3,966,655	3,030,736
Dividends payable	913,463	839,399
Income taxes payable	1,723,459	1,613,469
Total current liabilities	9,645,472	8,254,232
Stockholders' Equity	65,249,747	69,263,696
Total Liabilities and Stockholders' Equity	$ 74,895,219	$ 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 June 30 Six Months Ended June 30

	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Sales	$ 16,969,774	$ 20,181,244	$ 34,455,837	$ 36,997,263
Costs and expenses:				
Cost of sales	11,619,503	13,834,378	23,861,597	25,659,409
Selling, general and administrative expenses	2,635,334	2,987,631	5,593,711	5,611,137
Total costs and expenses	14,254,837	16,822,009	29,455,308	31,270,546
Operating income	2,714,937	3,359,235	5,000,529	5,726,717
Other income and (expenses):				
Investment income	328,342	399,159	788,234	775,246
Interest expense	(1,264)		(2,525)	
Other income, net	327,078	399,159	785,709	775,246
Income before income taxes	3,042,015	3,758,394	5,786,238	6,501,963
Income taxes (Note 3)	600,000	875,000	1,150,000	1,450,000
Net income	$ 2,442,015	$ 2,883,394	$ 4,636,238	$ 5,051,963
Basic net income per share	$ .27	$ .31	$ .50	$ .55
Diluted net income per share	$ .27	$ .31	$ .50	$ .55
Average shares outstanding:				
Weighted average number of common shares outstanding	9,111,450	9,201,213	9,215,611	9,173,291
Dilutive effect of stock options outstanding after application of treasury stock method	103,482	58,015	98,411	60,290
	9,214,932	9,259,228	9,314,022	9,233,581

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					
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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				4,636,238			4,636,238
Shareholder dividends				(1,750,882)			(1,750,882)
Issuance of common stock under Employee Stock Option Plan	82,834	4,141	910,953				915,094
Issuance of notes receivable for stock options						(288,225)	(288,225)
Purchase of Communications Systems, Inc. common stock	(444,300)	(22,015)	(1,169,301)	(6,405,933)			(7,597,249)
Cumulative translation adjustment					71,075		71,075
BALANCE at June 30, 1998	8,969,186	$ 448,459	$ 23,874,423	$ 41,032,278	$ 182,812	$ (288,225)	$ 65,249,747

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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	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 4,636,238	$ 5,051,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,355,908	1,246,477
Adjustment to marketable securities reserve	(41,871)	(24,684)
Changes in assets and liabilities:		
Decrease in marketable securities	820,066	128,141
Decrease (increase) in accounts receivable	192,239	(1,250,215)
Increase in inventory	(2,030,678)	(2,236,126)
Decrease in prepaid expenses	467,670	184,692
Increase in deferred income taxes	(606)	(269,643)
Increase in accounts payable	253,009	431,064
Increase in accrued expenses	933,581	594,946
Increase in income taxes payable	107,093	

		426,952
Net cash provided by operating activities	6,692,649	4,283,567
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,131,338)	(1,601,178)
Decrease in mortgage backed and other investment securities	825,167	582,566
Increase in other assets	(481,478)	(458,039)
Changes in assets and liabilities of discontinued operations		536,679
Collection of notes receivable	200,000	201,207
Proceeds from maturities of 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	3,661,665	(818,712)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(1,676,818)	(1,463,882)
Proceeds from issuance of common stock	626,869	969,309
Purchases of Communications Systems, Inc. common stock	(7,597,249)	
Net cash used in financing activities	(8,647,198)	(494,573)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	31,242	(54,002)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,738,358	2,916,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,942,315	17,799,398
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,680,673	$ 20,715,678
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 1,040,010	$ 1,010,076
Interest paid	2,525	-

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, 1998, and the statements of income for the three and six month periods ended June 30, 1998 and 1997, and the statements of cash flows for the six month periods ended June 30, 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 June 30, 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 June 30 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 June 30, 1998 and 1997 was $2,429,830 and $2,963,733, respectively. The Company's total comprehensive income for the six-month periods ended June 30, 1998 and 1997 was $4,707,313 and $4,892,045, 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:

	June 30 1998	December 31 1997
Finished Goods	$ 7,220,175	$ 5,237,907
Raw Materials	13,271,634	13,200,624
Total	$ 20,491,809	$ 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 June 30, 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.

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

Six Months Ended June 30, 1998 Compared to Six Months Ended June 30, 1997

Sales totaled $34,456,000, a decrease of $2,541,000 or 7% from the 1997 period. Operating income was $5,001,000, a decrease of $726,000 or 13% from 1997. Sales to domestic (U.S. and Puerto Rico) customers decreased $1,875,000 or 7%. Sales to the Big 6 telephone companies (the five Regional Bell Operating Companies and GTE) decreased $2,722,000 or 14%. 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 this market accounted for 60% of domestic sales in the 1998 period. Sales to electrical distributors and original equipment manufacturers increased $776,000 or 12%. Sales in Puerto Rico increased $309,000 or 37%. Sales to retailers decreased $349,000 or 13%.

The sales decreases were spread over all of the Company's product groups. Sales of the Company's CorroShield line of corrosion resistant connectors, which has lead the Company's sales growth, were 5% lower for 1998 than in the 1997 period. CorroShield product sales totaled $10,450,000 in the 1998 period compared to $10,998,000 in 1997. Sales of conventional voice products declined $207,000 or 2%. The Company believes the sales decline of these products is due to customers converting to the CorroShield product. Sales of data products decreased $1,019,000 or 27%. Sales of fiber optic connector products decreased $386,000 or 19%.

Sales to international customers decreased $666,000 or 8%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $380,000 or 6% due to lower 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, decreased $286,000 or 26% due to lower sales of fiber products.

Gross margin as a percentage of sales was 31%, unchanged from the 1997 period. Margin percentages in U.S. plants were 33% in each period. Margins earned on Austin Taylor products improved to 20% from 19% in the 1997 period.

Selling, general and administrative expenses decreased $17,000 from the 1997 period. The decrease was due to timing changes in sales and marketing programs as the Company refocused efforts to increase sales of the Company's data products and develop export markets for telephone station apparatus products.

Investment income, net of interest expense, increased $10,000 from the 1997 period. The Company's effective income tax rate was 20% compared to 22% 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 decreased $416,000, or 8%.

Three Months Ended June 30, 1998 Compared to
Three Months Ended June 30, 1997

Sales totaled $16,970,000, a decrease of $3,211,000 or 16% from the 1997 period. Operating income was $2,715,000, a decrease of $644,000 or 19% from 1997. Sales to domestic (U.S. and Puerto Rico) customers decreased $2,231,000 or 14%. Sales to the Big 6 telephone companies decreased $2,111,000 or 20%. 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 this market accounted for 59% of domestic sales in the 1998 period. Sales to electrical distributors and original equipment manufacturers increased $324,000 or 9%. Sales in Puerto Rico increased $69,000 or 23%. Sales to retailers decreased $334,000 or 27%.

The sales decreases were spread over all of the Company's product groups. Sales of the Company's CorroShield line of corrosion resistant connectors, which has lead the Company's sales growth, were 27% lower for 1998 than in the 1997 period. The Big 6 telephone companies have been the Company's principal markets for CorroShield products. Sales of data products decreased $750,000 or 37%. Sales of fiber optic connector products decreased $217,000 or 20%.

Sales to international customers decreased $980,000 or 21%. Sales by Austin Taylor, the Company's United Kingdom based subsidiary, decreased $559,000 or 16% due to lower 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, decreased $421,000 or 39% due to lower sales of fiber products and lower sales to Far East customers. The Company believes its sales in this region are being hurt by the currency devaluations that have followed the economic crisis in this area.

Gross margin as a percentage of sales was unchanged from the 1997 period. Margin percentages in U.S. plants were 34% in each period. Margins earned on Austin Taylor products were 19% in each period.

Selling, general and administrative expenses decreased $352,000, or 12%, from the 1997 period. The decrease was due to changes in sales and marketing programs as the Company refocused efforts to increase sales of the Company's data products and develop export markets for telephone station apparatus products.

Investment income, net of interest expense, decreased $72,000 from the 1997 period. The Company's effective income tax rate was 20% compared to 23% 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 decreased $441,000, or 15%.

Liquidity and Capital Commitments

At June 30, 1998, the Company held approximately $19,681,000 of cash compared to $17,942,000 at December 31, 1997. Working capital was $44,246,000 compared to $48,514,000 at December 31, 1997. The Company's current ratio was 5.6 to 1 compared to 6.9 to 1 at December 31, 1997. In addition to its cash and working capital balances, the Company also holds investments in long-term securities and notes receivable totaling $6,889,000.

Net cash provided by operating activities was $6,693,000 compared to $4,284,000 in the first six months of 1997. Cash was utilized during the period to finance increased inventory levels, purchase new plant and equipment, pay dividends and repurchase the Company's common stock.

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 June 30, 1998, the Company had purchased and retired 440,300 shares of stock at a cost of $7,597,000. Subsequent to the end of the quarter, the Board increased the repurchase authorization by an additional 500,000 shares. The Company received $627,000 and $969,000 from stock issuances due to exercise of employee stock options in 1998 and 1997, respectively.

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 $1,200,000.

The Company's balance sheet remains strong, with stockholders' equity of $65,250,000 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.

Year 2000 Issues

At the current time, none of the Company's products contain embedded controllers or microprocessors. None of the products are date sensitive or subject to the Year 2000 problem.

The Company has surveyed its manufacturing and accounting systems to identify any internal Year 2000 problems. The Company's U.S. accounting and management control systems are Year 2000 compliant. Austin Taylor's facilities are not currently Year 2000 compliant, and will be upgraded in the third quarter of 1998. The Company has also been in contact with its major customers and suppliers to ensure that Year 2000 issues do not cause any unforseen electronic data interchange or other problems. The Company does not expect Year 2000 issues to have a material effect on the Company's operations or financial results.

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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 - 3. Not Applicable

Item 4. Submission of Matters to a Vote of Securities Holders The Annual Meeting of the Shareholders of the Registrant was held on May, 19, 1998 in Minneapolis, MN. The total number of shares outstanding and entitled to vote at the meeting was 9,274,852 of which 8,635,607 were present either in person or by proxy. Shareholders reelected board members Curtis A. Sampson, Joseph W. Parris and Gerald D. Pint to three year terms expiring at the 2001 Annual Meeting of Shareholders. The vote for these board members is summarized below:

	In Favor	Abstaining
Curtis A. Sampson	8,195,629	439,978
Joseph W. Parris	8,195,909	439,698
Gerald D. Pint	8,195,129	440,478

Board members continuing in office are Edwin C. Freeman, Luella Gross Goldberg, John C. Ortman and Edward E. Strickland (whose terms expire at the 1999 Annual Meeting of Shareholders) and Paul J. Anderson, Wayne E. Sampson and Frederick M. Green (whose terms expire at the 2000 Annual Meeting of Shareholders).

Shareholders also approved amendments to increase the shares authorized to be issued under the Company's Employee Stock Purchase Plan by 100,000 shares to 300,000 shares; and to increase the number of shares authorized to be issued under the Company's 1992 Stock Plan by 500,000 shares to 1,400,000 shares. The vote on these amendments is summarized below:

	In Favor	Against	Abstaining
Employee Stock Purchase Plan Amendment	7,602,977	116,159	916,471
1992 Stock Plan Amendment	6,274,249	1,444,750	916,608

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 /s/ Paul N. Hanson
Paul N. Hanson
Vice President and
Chief Financial Officer

Date: August 14, 1998

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