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, 2004

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: 001-31588

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

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 [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [ ] NO [X]

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 July 31, 2004
Common Stock, par value $.05 per share	8,236,489

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

Assets:	June 30 2004	December 31 2003
Current assets:		
Cash	$ 20,530,574	$ 14,941,254
Trade receivables, net	22,075,267	22,647,129
Related party receivables	198,110	387,411
Inventories	23,640,847	24,354,041
Deferred income taxes	3,163,869	2,682,869
Other current assets	728,636	1,197,027
Total current assets	70,337,303	66,209,731
Property, plant and equipment	34,538,604	32,331,619
less accumulated depreciation	27,673,874)	(26,499,908)
Net property, plant and equipment	6,864,730	5,831,711
Other assets:		
Excess of cost over net assets acquired	5,253,793	5,253,793
Deferred income taxes	1,252,757	1,252,757
Other assets	512,146	547,966
Total other assets	7,018,696	7,054,516
Total Assets	$ 84,220,729	$ 79,095,958
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 5,054,375	$ 2,194,560
Accrued compensation and benefits	3,246,812	3,013,533
Other accrued liabilities	1,680,366	1,885,000
Dividends payable	329,460	327,397
Income taxes payable	1,576,959	837,703
Total current liabilities	11,887,972	8,258,193
Stockholders' Equity	72,332,757	70,837,765
Total Liabilities and Stockholders' Equity	$ 84,220,729	$ 79,095,958

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(unaudited)
<TABLE>
<CAPTION>

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Sales	$ 27,133,140	$ 24,868,683	$ 52,382,304	$ 51,443,833
Costs and expenses:				
Cost of sales	18,062,559	17,454,032	35,374,930	36,623,393
Selling, general and administrative expenses	7,468,860	6,668,606	14,284,741	12,890,497
Total costs and expenses	25,531,419	24,122,638	49,659,671	49,513,890
Operating income	1,601,721	746,045	2,722,633	1,929,943
Other income and (expenses):				
Investment and other income	42,351	270,436	75,856	293,010
Interest expense	(34,264)	(18,279)	(34,264)	(51,680)
Other income, net	8,087	252,157	41,592	241,330

Income before income taxes	1,609,808	998,202	2,764,225	2,171,273
Income taxes	620,000	370,000	1,050,000	820,000
Net income	989,808	628,202	1,714,225	1,351,273
Other comprehensive income (loss):				
Foreign currency translation adjustment	(12,492)	148,070	38,373	88,556
Comprehensive income	$ 977,316	$ 776,272	$ 1,752,598	$ 1,439,829
Basic net income per share	$ .12	$ .08	$ .21	$ .17
Diluted net income per share	$ .12	$ .08	$ .21	$ .17
Average Basic Shares Outstanding	8,232,791	8,161,216	8,221,983	8,160,931
Average Dilutive Shares Outstanding	8,271,982	8,176,809	8,267,207	8,174,406

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See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARI
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

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	Common Stock		Additional		Cumulative Other	
	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2002	8,142,716	$ 407,135	$ 27,613,163	$ 40,920,358	$ (69,378)	$ 68,871,278
Net income				2,717,481		2,717,481
Issuance of common stock under Employee Stock Purchase Plan	23,172	1,159	122,503			123,662
Issuance of common stock to Employee Stock Ownership Plan	32,000	1,600	253,440			255,040
Issuance of common stock under Employee Stock Option Plan	1,700	85	11,645			11,730
Purchase of common stock	(14,217)	(711)	(46,115)	(51,122)		(97,948)
Shareholder dividends				(1,308,233)		(1,308,233)
Other comprehensive income					264,755	264,755
BALANCE AT DECEMBER 31, 2003	8,185,371	409,268	27,954,636	42,278,484	195,377	70,837,765
Net income				1,714,225		1,714,225
Issuance of common stock to Employee Stock Ownership Plan	33,000	1,650	262,724			264,374
Issuance of common stock under Employee Stock Option Plan	18,315	916	137,209			138,125
Purchase of common stock	(197)	(10)	(673)	(1,056)		(1,739)
Shareholder dividends				(658,366)		(658,366)
Other comprehensive income					38,373	38,373
BALANCE AT JUNE 30, 2004	8,236,489	$ 411,824	$ 28,353,896	$ 43,333,287	$ 233,750	$ 72,332,757

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See notes to consolidated financial statements.

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

	Six Months Ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,714,225	$ 1,351,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,157,315	1,246,018
Changes in assets and liabilities net of effects of the purchase of Image Systems Corporation in 2004:		
Trade receivables	1,238,221	(2,626,442)
Inventories	1,460,265	(5,136,616)
Other current assets	400,008	749,928
Accounts payable	2,670,303	(1,585,473)
Accrued expenses	13,499	785,668
Income taxes payable	739,256	(1,438,373)
Net cash provided by (used in) operating activities	9,393,092	(6,654,017)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(717,480)	(390,981)
Other assets	138,556	(134,775)
Payment for purchase of Image Systems Corporation	(2,801,683)	
Net cash used in investing activities	(3,380,607)	(525,756)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable		(6,000,000)
Dividends paid	(658,366)	(652,661)
Proceeds from issuance of stock	138,125	
Purchase of stock	(1,739)	(675)
Net cash used in financing activities	(521,980)	(6,653,336)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	98,715	(8,294)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,589,220	(13,841,403)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,941,254	19,816,328
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$20,530,474	$ 5,974,925
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 310,744	$ 2,251,045
Interest paid	34,083	71,467
Dividends declared not paid	329,460	326,449

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of June 30, 2004 and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the six-month periods ended June 30, 2004 and 2003 have been prepared by Communications Systems, Inc. and Subsidiaries (the Company or we) 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, 2004 and 2003 and for the six months then ended have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2003 Annual Report to Shareholders and form 10-K. The results of operations for the periods ended June 30 are not necessarily indicative of the operating results for the entire year.

In February 2004 the Company issued 33,000 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 2003 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $262,724 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

STOCK BASED COMPENSATION PLANS

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" for measurement and recognition of stock-based transactions with its employees and accordingly no stock-based employee compensation cost is reflected in net income. If the Company had elected to recognize compensation cost for its stock based transactions using the method prescribed by SFAS No. 123, pro forma net income (loss) and net income per share would have been as follows:

	Three Months Ended June 30	
	2004	2003
Net Income		
As reported	$ 990,000	$ 628,000
Compensation expense, net of tax	$ 109,000	$ 126,000
Pro forma	$ 881,000	$ 502,000
Earnings Per Share-Basic		
As reported	$. 12	$ .08
Pro forma	$. 11	$ .06
Earnings Per Share-Diluted		
As reported	$. 12	$ .08
Pro forma	$. 11	$ .06

	Six Months Ended June 30	
	2004	2003
Net Income		
As reported	$ 1,714,000	$ 1,351,000
Compensation expense, net of tax	$ 186,000	$ 176,000
Pro forma	$ 1,528,000	$ 1,175,000
Earnings Per Share-Basic		
As reported	$. 21	$ .17
Pro forma	$. 19	$ .14
Earnings Per Share-Diluted		
As reported	$. 21	$ .17
Pro forma	$. 19	$ .14

NOTE 2 - ACQUISITIONS

Effective March 24, 2004, the Company acquired substantially all the outstanding shares of Image Systems Corporation (Pinksheets: IMSG) for a cash purchase price per share of $0.643 or approximately $2.8 million in total consideration. Image Systems Corporation (Image Systems), located in Minnetonka, Minnesota designs, manufactures and markets high-resolution display solutions and accessories for customers in the medical imaging market or for other customers who have stringent and or unique display requirements. In addition, Image Systems has been a premier developer of video graphics products since 1988. The proforma effects of the Image Systems Corporation acquisition on our consolidated financial statements were not material to the Company's consolidated financial statements. The acquisition and operations of Image Systems are included in the Company's financial results from the purchase date March 24, 2004. In the acquisition, the estimated fair value of the following assets were acquired and liabilities assumed:

Property, plant and equipment	$ 1,434,000
Accounts receivable	576,297
Inventory	716,999
Cash	103,625
Other assets	508,770
Accounts payable	(180,162)

Accrued expenses	(254,221)
Total purchase price	2,905,308
Less cash acquired	(103,625)
Payment for purchase of Image Systems Corp., net of cash acquired	$ 2,801,683

NOTE 3 - INVENTORIES

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

	June 30 2004	December 31 2003
Finished Goods	$ 13,464,963	$ 14,531,725
Raw Materials	10,175,884	9,822,316
Total	$ 23,640,847	$ 24,354,041

NOTE 4 - EXCESS OF COST OVER NET ASSETS ACQUIRED (GOODWILL) AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of business the Company has acquired exceed the estimated fair value of the net tangible assets and separately identifiable assets of these businesses. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. We reassess the value of our business units and related goodwill balances at the beginning of the first quarter of each fiscal year and at other times if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable. Accordingly, we have determined that there was no impairment as of January 1, 2004 and no events occurred during the six months ended June 30, 2004 that indicated our remaining goodwill was not recoverable. As of June 30, 2004 the Company had net goodwill of $5,254,000. Intangible assets with finite useful lives (consisting of a royalty agreement) will continue to be amortized over its remaining life of five years. Amortization included in costs and expenses was $23,000 and $34,000 for the six months ended June 30, 2004 and 2003, respectively.

NOTE 5 - WARRANTY

We provide reserves for the estimated cost of product warranties at the time revenue is recognized. We estimate the costs of our warranty obligations based on our warranty policy or applicable contractual warranty, historical experience of known product failure rates, and use of materials and service delivery costs incurred in correcting product failures. Management reviews the estimated warranty liability on a quarterly basis to determine its adequacy.

The following table presents the changes in the Company's warranty liability for the six months ended June 30, 2004 and 2003, the majority of which relates to a five-year obligation to provide for potential future liabilities for network equipment sales.

	2004	2003
Beginning Balance	$ 659,684	$ 662,672
Actual warranty costs paid	(66,833)	(80,124)
Amounts charged to expense	57,833	90,144
Ending balance	$ 650,684	$ 672,692

NOTE 6 - SEGMENT INFORMATION

The Company classifies its businesses into five segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks and MiLAN Technology, which designs and markets data transmission, computer network and media conversion products and print servers; and JDL Technologies, (JDL), which provides telecommunications network design, specification and training services to educational institutions; Other includes Image Systems Corporation, (substantially all assets purchased March 24, 2004) which designs, manufactures and markets high-resolution display solutions and accessories for customers in the medical imaging market and non allocated corporate general and administrative expenses. Information concerning the Company's continuing operations in the various segments is as follows:

<TABLE>
<CAPTION>

	Suttle	Austin Taylor	Transition Networks/MiLAN	JDL Technologies	Other	Consolidated
Six Months Ended June 30, 2004:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales	$ 18,727,133	$ 4,572,642	$ 25,195,987	$ 3,018,344	$ 868,198	$ 52,382,304
Cost of sales	14,470,739	4,037,905	14,969,461	1,320,462	576,363	35,374,930
Gross profit	4,256,394	534,737	10,226,526	1,697,882	291,835	17,007,374
Selling, general and administrative expenses	2,487,059	663,706	8,266,280	1,486,592	1,381,104	14,284,741
Operating income (loss)	$ 1,769,335	$ (128,969)	$ 1,960,246	$ 211,290	$(1,089,269)	$ 2,722,633
Depreciation and amortization	$ 705,785	$ 166,302	$ 147,166	$ 60,000	$ 78,062	$ 1,157,315
Capital expenditures	$ 305,191	$ 27,973	$ 220,971	$ 100,617	$ 62,728	$ 717,480
Assets	$ 34,810,327	$ 6,118,888	$ 27,202,200	$ 5,670,651	$10,418,663	$ 84,220,729
Six Months Ended June 30, 2003:						
Sales	$ 15,442,285	$ 3,286,946	$ 24,717,251	$ 7,997,351	$ -	$ 51,443,833
Cost of sales	12,537,965	3,279,684	15,727,223	5,078,521	-	36,623,393
Gross profit	2,904,320	7,262	8,990,028	2,918,830	-	14,820,440
Selling, general and administrative expenses	2,418,779	687,598	6,992,874	1,854,535	936,711	12,890,497
Operating income (loss)	$ 485,541	$ (680,336)	$ 1,997,154	$ 1,064,295	$ (936,711)	$ 1,929,943
Depreciation and amortization	$ 762,859	$ 154,392	$ 190,407	$ 90,360	$ 48,000	$ 1,246,018
Capital expenditures	$ 162,377	$ -	$ 59,882	$ 145,994	$ 22,728	$ 390,981
Assets	$ 36,157,535	$ 4,886,904	$ 27,690,812	$ 6,659,483	$ 6,107,708	$ 81,502,442

</TABLE>

Information concerning the Company's operations in the various segments for the three-month periods ended June 30, 2004 and 2003 is as follows:

<TABLE>
<CAPTION>

	Suttle	Austin Taylor	Transition Networks/MiLAN	JDL Technologies	Other	Consolidated

Three Months Ended June 30, 2004:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales	$ 9,416,781	$ 1,830,649	$ 12,969,172	$ 2,048,340	$ 868,198	$ 27,133,140
Cost of sales	7,341,812	1,647,851	7,725,452	771,081	576,363	18,062,559
Gross profit	2,074,969	182,798	5,243,720	1,277,259	291,835	9,070,581
Selling, general and administrative expenses	1,195,916	329,961	4,298,601	714,870	929,512	7,468,860
Operating income (loss)	$ 879,053	$ (147,163)	$ 945,119	$ 562,389	$ (637,677)	$ 1,601,721
Depreciation and amortization	$ 354,942	$ 75,291	$ 79,456	$ 30,000	$ 44,185	$ 583,874
Capital expenditures	$ 182,589	$ 8,593	$ 117,896	$ 89,037	$ 2,728	$ 400,843
Three Months Ended June 30, 2003:						
Sales	$ 7,299,435	$ 1,712,835	$ 12,335,908	$ 3,520,505	$ -	$ 24,868,683
Cost of sales	5,859,002	1,619,099	7,923,887	2,052,044	-	17,454,032
Gross profit	1,440,433	93,736	4,412,021	1,468,461	-	7,414,651
Selling, general and administrative expenses	1,218,077	363,231	3,573,289	963,533	550,476	6,668,606
Operating income (loss)	$ 222,356	$ (269,495)	$ 838,732	$ 504,928	$ (550,476)	$ 746,045
Depreciation and amortization	$ 345,289	$ 74,220	$ 111,116	$ 45,180	$ 6,662	$ 582,467
Capital expenditures	$ (100,830)	$ (61,302)	$ 40,564	$ 67,121	$ 21,347	$ (33,100)

</TABLE>

NOTE 7 - INCOME TAXES

In the preparation of the Company's consolidated financial statements, management calculates income taxes based upon the estimated effective rate applicable to operating results for the full fiscal year. This includes estimating the current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recovered from future taxable income. The Company's effective income tax rate was 38% as of June 30, 2004 and 2003 which approximates the estimated annual effective tax rate.

NOTE 8 - NET INCOME PER SHARE

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, which resulted in a dilutive effect of 45,224 shares and 13,475 shares for the periods ended June 30, 2004 and 2003, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method. The total number of non-dilutive stock options was 1,094,784 at June 30, 2004 and 1,300,741 at June 30, 2003.

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

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Six Months Ended June 30, 2004 Compared to
Six Months Ended June 30, 2003

Consolidated sales in 2004 increased 2% to $52,382,000 compared to $51,443,000 in 2003. The 2004 six-month revenues include $868,000 in sales contributed from the Image Systems business unit, which was acquired in March 2004. Consolidated operating income in 2004 increased to $2,723,000 compared to $1,923,000 in the first six months of 2003. The Company's core business units providing broadband products, Digital Subscriber Line (DSL) products and media conversion and network switching products continue to show growth in the first six months of 2004.

Suttle sales increased 18% in the first six months of 2004 to $18,727,000 compared to $15,442,000 in the same period of 2003 due to increased volumes with the major telephone companies. Sales to the major telephone companies (the Regional Bell Operating Companies ("RBOCs" which are Verizon Logistics, Bell South, SBC Communications and Qwest) increased 23% to $10,140,000 in 2004 compared to $8,224,000 in 2003. Sales to these customers accounted for 54% and 53% of Suttle's U.S. customer sales in 2004 and 2003 respectively. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors decreased 9% to $3,402,000 in 2004 compared to $3,744,000 in 2003. Contract manufacturing sales totaled $1,674,000 in the first six months of 2004 compared to $1,780,000 in 2003.

Suttle's gross margins increased to $4,256,000 in the first six months of 2004 compared to $2,904,000 in the same period in 2003. Gross margin percentage was 23% in 2004 compared to 19% in 2003. The gross margin percentage increase was due to cost reduction measures implemented in 2004 and 2003 and higher business volumes. The Company has continued to outsource more manufacturing in Asia and shifted manufacturing to the lower cost plant in Costa Rica. These actions contributed to a positive impact on gross margin and operating results. Selling, general and administrative expenses increased $68,000 in the first six months of 2004 compared to the same period in 2003. Suttle's operating income was $1,769,000 in the first six months of 2004 compared to $486,000 in the same period of 2003.

Austin Taylor's sales increased to $4,573,000 in the first six months of 2004 compared to $3,287,000 in the same period of 2003. Gross margin increased to $535,000 in the first six months of 2004 compared to $7,200 in 2003. The increase in gross margin was principally due to higher business volumes, headcount reductions and outsourcing certain manufacturing to Asia. Selling, general and administrative expenses decreased by $24,000 in the first six months of 2004 compared to the same period in 2003. Operating loss decreased to $129,000 in 2004 compared to an operating loss of $680,000 in the same period of 2003.

Transition Networks / MiLAN Technology segment sales increased by 2% to $25,196,000 in the first six months of 2004 compared to $24,717,000 in the same period in 2003. The demand for media conversion, network switching and related products has remained strong in the first half of 2004 and is expected to remain a growth market for some time. Gross margin increased to $10,227,000 in the first six months of 2004 from $8,990,000 in 2003. Gross margin as a percentage of sales was 40% in 2004 compared to 36% in 2003. Improved gross margin was a result of cost reductions from vendors and higher business volumes experienced in the first six months of 2004. Selling, general and administrative expenses increased to $8,266,000 in the first six months of 2004 compared to $6,993,000 in 2003. The increase was due to higher marketing costs and an expansion of the domestic sales force. Operating income for this segment decreased slightly to $1,960,000 from $1,997,000 in the first six months of 2004 compared to the same period in 2003.

Sales by JDL Technologies, Inc. were $3,018,000 in the first six months of 2004 compared to $7,997,000 in the same period in 2003. Delays for the year 6 government technology funding (Federal E-Rate program) adversely affected JDL's sales and operating income in the first six months of 2004. JDL completed several large educational institutional projects in the first quarter of 2003 consisting of hardware and software sales as well as design and network management services. Gross margin in the first six months of 2004 decreased to $1,698,000 compared to $2,918,000 in the same period of 2003. Gross margin as a percentage of sales increased to 56% from 36% in the 2004 period due to higher margin sales of design and maintenance services to client school districts. Selling, general and administrative expenses decreased $377,000 in the first six months of 2004 compared to the same period of 2003. This was attributable to cost and headcount reductions within JDL. JDL's operating income was $211,000 in the first six months of 2004 compared to operating income of $1,064,000 in the same period in 2003.

Consolidated investment and other income decreased $200,000 in the first six months of 2004 compared to 2003. In 2003 the Company realized a net gain on disposal of assets relative to the closing of the final building in Puerto Rico in the second quarter of approximately $280,000 which was recorded as other income. Interest expense decreased by $17,000 in the first six months of 2004 compared to the same period in 2003 due to a decrease in borrowings on the line of credit and a lower interest rate. Income before income taxes increased by $593,000 to $2,764,000. The Company's effective income tax rate was 38% in 2004 and 2003. Net income through the first six months of 2004 increased $363,000 to $1,714,000 compared to $1,351,000 in the same period in 2003.

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Consolidated sales increased 9% to $27,133,000 in the three-month period ended June 30, 2004 compared to $24,869,000 in the same period in 2003. Consolidated operating income increased $856,000 to $1,602,000 in the three months ended June 30, 2004 compared to $746,000 in the same period in 2003.

Suttle sales increased 29% to $9,417,000 in 2004 compared to $7,299,000 in 2003 due to increased volumes with the major telephone companies (RBOC's). Suttle's gross margins increased to $2,075,000 in 2004 compared to $1,440,000 in 2003. Improved margins were a result of cost reductions from vendors and higher sales volumes. Selling, general and administrative expenses decreased $22,000 in the second quarter of 2004 compared to the same period in 2003. Suttle had operating income of $879,000 in the three-month period in 2004 compared to operating income of $222,000 in the same period in 2003.

Austin Taylor's sales increased 7% to $1,831,000 in the 2004 three-month period compared to $1,713,000 in 2003 due to increased volumes with several major customers. Austin Taylor's gross margin improved to $183,000 in 2004 compared to $94,000 in 2003. Selling, general and administrative expenses decreased $33,000 in the second quarter of 2004 compared to the same period in 2003. Operating loss decreased $122,000 to an operating loss of $147,000 in the second quarter of 2004 compared to an operating loss of $269,000 in 2003.

Transition Networks / MiLAN Technology segment sales increased by 5% to $12,969,000 in the second quarter of 2004 compared to $12,336,000 in the same period in 2003. Gross margin increased to $5,244,000 in 2004 from $4,412,000 in 2003. Gross margin as a percentage of sales was 40% in 2004 compared to 36% in 2003. Gross margin improvements can be attributed to lower material costs from vendors and higher sales volumes. Selling, general and administrative expenses increased to $4,299,000 in 2004 compared to $3,573,000 in 2003. Operating income increased to $945,000 in the second quarter of 2004 compared to $839,000 in the same period of 2003.

Sales by JDL Technologies, Inc. decreased to $2,048,000 in the second quarter of 2004 compared to $3,521,000 in the same period in 2003. Delays for the year 6 government technology funding (Federal E-Rate program) adversely affected JDL's sales in the second quarter of 2004. JDL's gross margin decreased to $1,277,000 in 2004 from $1,468,000 in 2003. Selling, general and administrative expenses decreased $249,000 in the second quarter of 2004 to $715,000 compared to $964,000 in the same period of 2003 due to cost and headcount reductions. JDL's operating income was $562,000 in the second quarter of 2004 compared to $505,000 in the 2003 second quarter.

Investment and other income in the second quarter of 2004 decreased by $244,000 in 2004 compared to 2003. The Company realized a net gain on disposal of assets relative to the closing of the final building in Puerto Rico in the second quarter of 2003 of approximately $280,000 which was recorded as other income. Income before income taxes increased by $612,000 to $1,610,000 in the second quarter of 2004 compared to $998,000 in the same period in 2003. The Company's effective income tax rate was 38% in 2004 compared to 37% in 2003. Net income for the second quarter of 2004 was $990,000 compared to net income of $628,000 in the second quarter of 2003.

Liquidity and Capital Resources

At June 30, 2004, the Company had $20,530,000 of cash and cash equivalents compared to $14,941,000 of cash and cash equivalents at December 31, 2003. The Company had working capital of approximately $58,449,000 and a current ratio of 5.9 to 1 compared to working capital of $57,952,000 and a current ratio of 8.0 to 1 at the end of 2003.

Net cash provided by operating activities was $9,393,000 in the first six months of 2004 compared to net cash used in operating activities of $6,654,000 in the same period in 2003. The increase was due primarily to reducing inventories and accounts receivable and also increases in accounts payable and income taxes payable.

Net cash used in investing activities was $3,381,000 in the first six months in 2004 compared to $526,000 in the same period in 2003. In March 2004, the Company acquired substantially all the outstanding shares of Image Systems Corporation (Pinksheets: IMSG) for a cash purchase price per share of $0.643 or approximately $2.8 million in total consideration net of cash acquired. In the first six months of 2004, cash investments in new plant and equipment totaled $717,000 compared to $391,000 in 2003. Plant and equipment purchases in both years were financed by internal cash flows. The Company expects to spend $1,200,000 on capital additions in 2004.

Net cash used in financing activities was $522,000 in 2004 compared to net cash used in financing activities in 2003 of $6,653,000. In March 2003, the Company paid in full the balance of the line of credit, which was $7,000,000. The Company purchased and retired 197 shares of its stock in open market transactions during the 2004 period. At June 30, 2004 Board authorizations are outstanding to purchase an additional 283,270 shares. Cash dividends paid in the first six months of 2004 was $658,000 compared to $653,000 in the same period in 2003. There were no additional borrowings on the line of credit during the first six months of 2004.

In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgements underlying them, are discussed in our 2003 Form 10-K in Note 1 Summary of Significant Accounting Policies included in our Consolidated Financial Statements. There were no significant changes to our critical accounting policies during the three months ended June 30, 2004. These policies have been consistently applied in all material respects and disclose such matters as allowance for doubtful accounts, sales returns, inventory valuation, warranty expense, income taxes, revenue recognition, asset and goodwill impairment recognition and foreign currency translation. On an ongoing basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. Management on an ongoing basis reviews these estimates and judgements.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (VIE), an Interpretation of ARB No. 51, which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, the interpretation expands disclosure requirements for both VIEs that are consolidated as well as VIEs from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. In October 2003, the FASB agreed to defer the effective date so that a public company would not need to apply the provisions of the interpretation to VIE interests acquired before February 1, 2003, until the end of the first interim or annual period ending after December 15, 2003. Because we have no variable interest entities, the adoption of this new standard did not have a material effect on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company has no freestanding or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as normal purchases or sales. The Company's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

The vast majority of our transactions are denominated in U.S. dollars; as such, fluctuations in foreign currency exchange rates have historically not been material to the Company. At June 30, 2004 our bank line of credit carried a variable interest rate based on the London Interbank Offered Rate (Libor) plus 2%. The Company's investments are money market type of investments that earn interest at prevailing market rates and as such do not have material risk exposure.

Based on the Company's operations, in the opinion of management, no material future losses or exposure exist relative to market risk.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Curtis A. Sampson, and Chief Financial Officer, Paul N. Hanson, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that review, they have concluded that these controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

(b) Changes in Internal Control over Financial Reporting

There have been no significant changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

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 20, 2004 in Eden Prairie, Minnesota. The total number of shares outstanding and entitled to vote at the meeting was 8,222,646 of which 7,960,058 were present either in person or by proxy. Shareholders re-elected board members Gerald D. Pint and Curtis A. Sampson to three-year terms expiring at the 2007 Annual Meeting of Shareholders. The vote for these board members was as follows:

	In Favor	Abstaining
Gerald D. Pint	7,593,795	366,263
Curtis A. Sampson	7,593,176	366,882

Board members continuing in office are Edwin C. Freeman, Luella Gross Goldberg and Randall D. Sampson (whose terms expire at the 2005 Annual Meeting of Shareholders) and Paul A. Anderson, Frederick M. Green and Wayne E. Sampson (whose terms expire at the 2006 Annual Meeting of Shareholders).

Item 5. Not Applicable

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are included herein:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).
32. Certifications pursuant Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350).

(b) Reports on Form 8-K.

On May 5, 2004, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission, reporting under Items 7 and 12 its first quarter 2004 earnings release to shareholders.

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/ Curtis A. Sampson
Curtis A. Sampson
Chairman and
Chief Executive Officer

Date: August 12, 2004

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

Date: August 12, 2004

Exhibit 31.1

Certification

I, Curtis A. Sampson certify that:

1. I have reviewed this Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/Curtis A. Sampson

Curtis A. Sampson
Chief Executive Officer

Date: August 12, 2004

Exhibit 31.2

Certification

I, Paul N. Hanson, certify that:

1. I have reviewed this Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/Paul N. Hanson

Paul N. Hanson
Chief Financial Officer

Date: August 12, 2004

Exhibit 32

Certification

The undersigned certify pursuant to 18 U.S.C.ss.1350, that:

(1) The accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2004 /s/ Curtis A. Sampson

Chief Executive Officer

Date: August 12, 2004 /s/ Paul N. Hanson

Chief Financial Officer