UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 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 October 29, 2004
Common Stock, par value $.05 per share	8,269,443

Total Pages (17)

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets:	September 30 2004	December 31 2003
Current assets:		
Cash	$ 23,491,505	$ 14,941,254
Trade receivables, net	22,367,762	22,647,129
Related party receivables	248,694	387,411
Inventories	22,215,272	24,354,041
Deferred income taxes	3,163,869	2,682,869
Other current assets	1,681,800	1,197,027
Total current assets	73,168,90	66,209,731
Property, plant and equipment	34,044,366	32,331,619
less accumulated depreciation	(27,305,836)	(26,499,908)
Net property, plant and equipment	6,738,530	5,831,711
Other assets:		
Goodwill	5,253,793	5,253,793
Deferred income taxes	1,252,757	1,252,757
Other assets	253,866	547,966
Total other assets	6,760,416	7,054,516
Total Assets	$ 86,667,848	$ 79,095,958
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 4,574,552	$ 2,194,560
Accrued compensation and benefits	3,358,716	3,013,533
Other accrued liabilities	2,211,165	1,885,000
Dividends payable	412,842	327,397
Income taxes payable	2,507,340	837,703
Total current liabilities	13,064,615	8,258,193
Stockholders' Equity	73,603,233	70,837,765
Total Liabilities and Stockholders' Equity	$ 86,667,848	$ 79,095,958

See notes to consolidated financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Sales	$ 29,261,887	$ 24,666,206	$ 81,644,191	$ 76,110,039
Costs and expenses:				
Cost of sales	19,285,153	18,114,844	54,660,083	54,738,237

Selling, general and administrative expenses	7,475,145	5,989,064	21,759,886	18,879,561
Total costs and expenses	26,760,298	24,103,908	76,419,969	73,617,798
Operating income	2,501,589	562,298	5,224,222	2,492,241
Other income and (expenses):				
Investment and other income	20,504	39,687	96,257	332,697
Interest expense		(19,788)	(34,161)	(71,468)
Other income (expense), net	20,504	19,899	62,096	261,229
Income before income taxes	2,522,093	582,197	5,286,318	2,753,470
Income taxes	985,000	135,000	2,035,000	955,000
Net income	1,537,093	447,197	3,251,318	1,798,470
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(9,042)	24,626	29,331	113,182
Comprehensive income	$ 1,528,051	$ 471,823	$ 3,280,649	$ 1,911,652
Basic net income per share	$ .19	$ .05	$ .40	$ .22
Diluted net income per share	$ .19	$ .05	$ .39	$ .22
Average Basic Shares Outstanding	8,243,242	8,168,870	8,229,121	8,163,414
Average Dilutive Shares Outstanding	8,266,056	8,196,638	8,265,772	8,181,784

See notes to consolidated financial statements.
</TABLE>

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)
<TABLE>
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	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Other 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				3,251,318		3,251,318
Issuance of common stock under Employee Stock Purchase Plan	22,193	1,110	160,489			161,599
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	19,685	984	137,209			138,193
Purchase of common stock	(986)	(49)	(3,389)	(4,502)		(7,940)
Shareholder dividends				(1,071,407)		(1,071,407)
Other comprehensive income					29,331	29,331
BALANCE AT SEPTEMBER 30, 2004	8,259,263	$ 412,963	$ 28,511,669	$ 44,453,893	$ 224,708	$ 73,603,233

See notes to consolidated financial statements.
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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
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	Nine Months Ended September 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 3,251,318	$ 1,798,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,712,014	1,868,935
Changes in assets and liabilities net of effects of the purchase of Image Systems Corporation in 2004:		
Trade and related party receivables, net	1,013,826	(177,024)
Inventories	2,878,342	(173,996)
Other current assets	(456,664)	355,092
Accounts payable	2,191,861	(1,972,435)
Accrued expenses	874,702	496,193
Income taxes payable	1,669,637	(1,327,655)
Net cash provided by operating activities	13,135,036	867,580
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,138,023)	(622,955)
Other assets	259,968	(175,372)
Payment for purchase of Image Systems Corporation	(2,801,683)	
Net cash used in investing activities	(3,679,738)	(798,327)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable		(7,000,000)
Dividends paid	(984,272)	(979,110)
Proceeds from issuance of common stock	138,193	

Purchase of common stock	(7,940)	(679)
Net cash used in financing activities	(854,019)	(7,979,789)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(51,028)	41,382
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,550,251	(7,869,154)
CASH AT BEGINNING OF PERIOD	14,941,254	19,816,328
CASH AT END OF PERIOD	$ 23,491,505	$ 11,947,174
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 368,363	$ 2,275,318
Interest paid	34,083	91,255
Dividends declared not paid	412,842	327,440

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 consolidated balance sheet as of September 30, 2004 and the related consolidated statements of income and comprehensive (loss) income for the three and nine-month periods ended September 30, 2004 and the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the nine-month periods ended September 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 September 30, 2004 and 2003 and for the nine months then ended 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, 2003 Annual Report to Shareholders. The results of operations for the periods ended September 30 are not necessarily indicative of the operating results for the entire year.

In February 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. In September 2004, the Company issued 22,193 shares of the Company's common stock to employees participating in the Employee Stock Purchase Plan for the plan year ended August 31, 2004. Under the terms of the plan, in a non-cash transaction, the Company recorded additional stockholders equity of $160,489 (reflecting 85% of the fair market value of the stock at August 31, 2004) 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 and net income per share would have been as follows:

	Three Months Ended September 30	
	2004	2003
Net Income		
As reported	$ 1,537,000	$ 447,000
Compensation expense, net of tax	$ 101,000	$ 106,000
Pro forma	$ 1,436,000	$ 341,000
Earnings Per Share-Basic		
As reported	$. 19	$ .05
Pro forma	$. 17	$ .04
Earnings Per Share-Diluted		
As reported	$. 19	$ .05

Pro forma	$. 17	$ .04

	Nine Months Ended September 30	
	2004	2003
Net Income		
As reported	$ 3,251,000	$ 1,798,000
Compensation expense, net of tax	$ 291,000	$ 283,000
Pro forma	$ 2,960,000	$ 1,515,000
Earnings Per Share-Basic		
As reported	$. 40	$ .22
Pro forma	$. 36	$ .19
Earnings Per Share-Diluted		
As reported	$. 39	$ .22
Pro forma	$. 36	$ .19

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 consolidated financial results from the purchase date March 24, 2004. The sum of amounts assigned to assets acquired and liabilities assumed exceeded the cost of the acquired entity. To account for this excess, the amounts assigned to property, plant and equipment were reduced on a pro-rata basis. 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:

	September 30 2004	December 31 2003
Finished Goods	$ 13,113,241	$ 14,531,725
Raw Materials	9,102,031	9,822,316
Total	$ 22,215,272	$ 24,354,041

NOTE 4 - 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, 2003 and no events occurred during the nine months ended September 30, 2004 that indicated our remaining goodwill was not recoverable. As of September 30, 2004 the Company had net goodwill of $5,254,000. Intangible assets with definite 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 $34,000 and $52,000 for the nine months ended September 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 nine months ended September 30, 2004, 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	(164,153)	(80,124)
Amounts charged to expense	162,602	118,920
Ending balance	$ 658,133	$ 701,468

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 for the nine-month periods ended September 30, 2004 and 2003 is as follows:

<TABLE>
<CAPTION>

	Suttle	Austin Taylor	Transition Networks/Milan	JDL Technologies	Other	Consolidated
Nine Months Ended September 30, 2004:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales	$ 29,028,596	$ 6,432,841	$ 38,634,203	$ 5,955,630	$ 1,592,921	$ 81,644,191
Cost of sales	21,974,415	5,730,726	22,896,378	3,019,252	1,039,312	54,660,083
Gross profit	7,054,181	702,115	15,737,825	2,936,378	553,609	26,984,108
Selling, general and administrative expenses	3,798,847	992,667	12,244,635	2,224,526	2,499,211	21,759,886
Operating income (loss)	$ 3,255,334	$ (290,552)	$ 3,493,190	$ 711,852	$ (1,945,602)	$ 5,224,222
Depreciation and amortization	$ 1,039,873	$ 241,507	$ 221,569	$ 90,000	$ 119,065	$ 1,712,014

Capital expenditure	$ 436,301	$ 10,747	$ 350,991	$ 251,962	$ 88,022	$ 1,138,023
Total Assets	$ 34,808,354	$ 5,595,865	$ 27,811,561	$ 5,640,038	$ 12,812,030	$ 86,667,848
Nine Months Ended September 30, 2003:						
Sales	$ 24,090,756	$ 4,819,816	$ 37,157,838	$10,041,629	$ -	$ 76,110,039
Cost of sales	19,427,142	4,734,324	23,910,190	6,666,581	-	54,738,237
Gross profit	4,663,614	85,492	13,247,648	3,375,048	-	21,371,802
Selling, general and administrative expenses	3,626,938	991,232	10,421,768	2,486,417	1,353,206	18,879,561
Operating income (loss)	$ 1,036,676	$ (905,740)	$ 2,825,880	$ 888,631	$ (1,353,206)	$ 2,492,241
Depreciation and amortization	$ 1,142,240	$ 235,365	$ 231,774	$ 135,540	$ 124,016	$ 1,868,935
Capital expenditures	$ 219,235	$ 95,496	$ 112,002	$ 173,494	$ 22,728	$ 622,955
Total Assets	$ 30,441,931	$ 6,045,815	$ 30,781,433	$ 6,741,469	$ 6,217,659	$ 80,228,307

</TABLE>

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

<TABLE>
<CAPTION>

<S>	Suttle <C>	Austin Taylor <C>	Transition Networks/Milan <C>	JDL Technologies <C>	Other <C>	Consolidated <C>
Three Months Ended September 30, 2004:						
Sales	$ 10,301,463	$ 1,860,199	$ 13,438,216	$ 2,937,286	$ 724,723	$ 29,261,887
Cost of sales	7,503,676	1,692,821	7,926,917	1,698,790	462,949	19,285,153
Gross profit	2,797,787	167,378	5,511,299	1,238,496	261,774	9,976,734
Selling, general and administrative expenses	1,311,788	328,961	3,978,355	737,934	1,118,107	7,475,145
Operating income (loss)	$ 1,485,999	$ (161,583)	$ 1,532,944	$ 500,562	$ (856,333)	$ 2,501,589
Depreciation and amortization	$ 334,088	$ 75,205	$ 74,403	$ 30,000	$ 41,003	$ 554,699
Capital expenditures	$ 131,110	$ -	$ 130,020	$ 151,345	$ 25,294	$ 437,769

Three Months Ended September 30, 2003:						
Sales	$ 8,648,471	$ 1,532,870	$ 12,440,587	$ 2,044,278	$ -	$ 24,666,206
Cost of sales	6,889,177	1,454,640	8,182,967	1,588,060	-	18,114,844
Gross profit	1,759,294	78,230	4,257,620	456,218	-	6,551,362
Selling, general and administrative expenses	1,208,159	303,634	3,428,894	631,882	416,495	5,989,064
Operating income (loss)	$ 551,135	$ (225,404)	$ 828,726	$ (175,664)	$ (416,495)	$ 562,298
Depreciation and amortization	$ 379,381	$ 80,973	$ 41,367	$ 45,180	$ 76,016	$ 622,917
Capital expenditures	$ 56,858	$ 95,496	$ 52,120	$ 27,500	$ -	$ 231,974

</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% and 35% as of September 30, 2004 and 2003, respectively, which approximates the estimated annual effective tax rate. The increase in effective tax rate is primarily due to higher income in the U.S., which is taxed at a higher rate. In addition, the Company has lower foreign sales in 2004, which reduces the utilization of the income tax reduction from the "Extraterritorial Income Exclusion" on foreign sales.

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 36,651 shares and 18,370 shares for the periods ended September 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 1,111,024 at September 30, 2004 and 1,293,664 at September 30, 2003.

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

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Consolidated sales in 2004 increased 7% to $81,644,000 compared to $76,110,000 in 2003. The 2004 nine-month revenues include $1,593,000 in sales contributed from the Image Systems business unit, which was acquired in March 2004. Consolidated operating income in 2004 increased to $5,224,000 compared to operating income of $2,492,000 in the first nine 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 revenue and earnings growth in the first nine months of 2004 compared to 2003.

Suttle sales increased to $29,029,000 in the first nine months of 2004 compared to $24,091,000 in the same period of 2003 due to increased volumes with existing and new customers. Sales to the major telephone companies increased 14% to $15,519,000 in 2004 compared to $13,609,000 in 2003. Sales to these customers accounted for 53% and 56% of Suttle's U.S. customer sales in 2004 and 2003, respectively. Sales to distributors, original equipment manufacturers (OEMs), and electrical contractors increased to $6,966,000 in 2004 compared to $5,729,000 in 2003. Contract manufacturing sales totaled $2,480,000 in the first nine months of 2004 compared to $2,274,000 in 2003.

Suttle's gross margins increased to $7,054,000 in the first nine months of 2004 compared to $4,664,000 in the same period in 2003. The gross margin percentage was 24% in 2004 compared to 19% in 2003. The gross margin percentage increase was due to cost reductions gained by shifting more manufacturing to the lower cost plant in Costa Rica and from outsourcing the manufacturing of certain products to Asia. Selling, general and administrative expenses increased slightly to $3,799,000 in the first nine months of 2004 compared to $3,627,000 in the same period in 2003. Suttle's operating income was $3,255,000 in the first nine months of 2004 compared to operating income of $1,037,000 in the same period of 2003.

Austin Taylor's sales increased to $6,433,000 in the first nine months of 2004 compared to $4,820,000 in the same period of 2003 due to increased business volumes with existing customers. Austin Taylor's gross margin increased to $702,000 in the first nine months of 2004 compared to $85,000 in 2003. The increase in gross margin was principally due to increased business volumes and lower manufacturing and overhead costs. Selling, general and administrative expenses was $993,000 in the first nine months of 2004 compared to $991,000 in the same period in 2003. Austin Taylor's operating loss in the first nine months of 2004 was $291,000 compared to an operating loss of $906,000 in the first nine months in 2003. Total severance costs incurred in the first nine months of 2003 were $290,000.

Transition Networks / MiLAN Technology segment sales increased to $38,634,000 in the first nine months of 2004 compared to $37,158,000 in the same period in 2003. Gross margin increased to $15,738,000 in the first nine months of 2004 from $13,248,000 in 2003. Gross margin as a percentage of sales was 41% in 2004 compared to 36% in 2003. The gross margin increase was due primarily to higher business volumes and reductions in material and product component cost reductions. Selling, general and administrative expenses increased to $12,245,000 in the first nine months of 2004 compared to $10,422,000 in 2003 due to an increase in the sales force headcount and marketing program expenses. Operating income for this segment increased to $3,493,000 in the first nine months of 2004 compared to $2,826,000 in the same period in 2003.

Sales by JDL Technologies, Inc. (the Company's education consulting business unit) was $5,956,000 in the first nine months of 2004 compared to $10,042,000 in the same period in 2003. The decrease was due to lower sales of equipment in 2004 as compared to 2003. Gross margin in the first nine months of 2004 decreased to $2,936,000 compared to $3,375,000 in the same period of 2003. Gross margin as a percentage of sales increased to 49% in 2004 from 34% in the 2003 period due to an increase in higher margin sales of connectivity and consulting services to client school districts. Selling, general and administrative expenses decreased $262,000 in the first nine months of 2004 compared to the same period of 2003. JDL's operating income was $712,000 in the first nine months of 2004 compared to operating income of $889,000 in the same period in 2003.

Consolidated investment and other income decreased $236,000 in the first nine months in 2004 compared to 2003. The Company realized a net gain on disposal of non-operating 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. Interest expense decreased by $37,000 in the first nine 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 to $5,286,000 in the nine-month period in 2004 compared to $2,754,000 in the same period in 2003. The Company's annualized effective income tax rate is 38% in 2004 compared to 35% in 2003. The increase is due to higher income in the U.S., which is taxed at a higher rate. In addition, the Company has lower foreign sales in 2004, which reduces the utilization of the income tax savings from the "Extraterritorial Income Exclusion" on foreign sales. Net income through the first nine months of 2004 increased to $3,251,000 compared to $1,799,000 in the same period in 2003.

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

Consolidated sales increased 19% to $29,262,000 in the three-month period ended September 30, 2004 compared to $24,666,000 in the same period in 2003. Consolidated operating income increased to $2,502,000 in the three months ended September 30, 2004 compared to $562,000 in the same period in 2003.

Suttle sales increased to $10,301,000 in 2004 compared to $8,648,000 in 2003 due to increased volumes in traditional products and DSL filters. Suttle's gross margins increased to $2,798,000 in 2004 compared to $1,759,000 in 2003. Selling, general and administrative expenses increased slightly to $1,312,000 in the third quarter of 2004 compared to $1,208,000 incurred in the same period of 2003. The increase was primarily due to increases in sales incentives and expenses. Suttle had operating income of $1,486,000 in the third quarter in 2004 compared to operating income of $551,000 in the same period in 2003.

Austin Taylor's sales increased to $1,860,000 in the 2004 three-month period compared to $1,533,000 in the same period in 2003. Austin Taylor's gross margin also increased to $167,000 in 2004 compared to $78,000 in 2003 due to increased volume and lower overhead costs. Selling, general and administrative expenses increased slightly to $329,000 in the third quarter of 2004 compared to $304,000 in 2003. The operating loss was $162,000 in the third quarter of 2004 compared to an operating loss of $225,000 in the third quarter of 2003.

Transition Networks / MiLAN Technology segment sales increased to $13,438,000 in the third quarter of 2004 compared to $12,441,000 in the same period in 2003. Gross margin increased to $5,511,000 in 2004 from $4,258,000 in 2003. Gross margin as a percentage of sales was 41% in 2004 compared to 34% in 2003. The gross margin increase was due primarily to higher business volumes and reductions in material and product component costs. Selling, general and administrative expenses increased to $3,978,000 in 2004 compared to $3,429,000 in 2003 due to increased sales and marketing expenses. Operating income increased to $1,533,000 in the third quarter of 2004 compared to $828,000 in the same period of 2003.

Sales by JDL Technologies, Inc. (the Company's education consulting business unit) increased to $2,937,000 in the third quarter of 2004 compared to $2,044,000 in the same period in 2003. JDL's gross margin increased to $1,238,000 in the third quarter of 2004 compared to $456,000 in the third quarter of 2003. Gross margin as a percentage of sales in the third quarter of 2004 increased to 42% from 22% in the 2003 period due to increased sales of higher margin connectivity and consulting services and decreased sales of equipment and hardware products which generate lower margins. Selling, general and administrative expenses increased to $738,000 in the third quarter of 2004 compared to $632,000 in the same period of 2003. JDL's operating income was $501,000 in the third quarter of 2004 compared to an operating loss of $176,000 in the 2003 third quarter.

Investment and other income in the third quarter of 2004 decreased by $19,100 in 2004 compared to 2003. Interest expense decreased by $20,000 in the third quarter 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 to $2,522,000 compared to $582,000 in the third quarter of 2003. Net income for the third quarter of 2004 was $1,537,000 compared to net income of $447,000 in the third quarter of 2003.

Liquidity and Capital Resources

At September 30, 2004, the Company had $23,492,000 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 $60,104,000 and a current ratio of 5.6 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 $13,135,000 in the first nine months of 2004 compared to net cash provided by operating activities of $868,000 in the same period in 2003. The cash flow increase was due primarily to increased net income, a reduction in trade receivables and inventories and an increase in the level of trade accounts payable, income taxes payable and accrued expenses.

Net cash used in investing activities was $3,680,000 in the first nine months in 2004 compared to $798,000 in the same period in 2003. In March 2004, the Company acquired substantially all of 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 nine months in 2004 cash investments in new plant and equipment totaled $1,138,000 compared to $623,000 in 2003. Plant and equipment purchases in both years were financed by internal cash flows. The Company expects to spend $1,400,000 in total on capital additions in 2004.

Net cash used in financing activities was $854,000 in the first nine months of 2004 compared to net cash used in financing activities in 2003 of $7,980,000. In 2003, the Company paid off the line of credit, which totaled $7,000,000 at December 31, 2002. At September 30, 2004 Board authorizations are outstanding to purchase an additional 283,200 shares. Cash dividends paid in the first nine months of 2004 was approximately $985,000.

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 nine months ended September 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 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 September 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

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are operating effectively and are adequately designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms and is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. During the period covered by this Report there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Items 1 - 4. Not Applicable

Item 5. Other Information

On November 2, 2004 the Company issued a news release which announced that Curtis A. Sampson, the Company's Founder, Chairman of the Board and Chief Executive Officer, has entered into a pre-arranged, systematic trading plan to sell CSI shares in accordance with the guidelines specified by Rule 10b5-1 under the Securities Exchange Act of 1934 and CSI's policies with respect to insider sales. Mr. Sampson's 10b5-1 Plan provides for the sale of approximately 110,000 CSI shares of common stock, beginning November 3, 2004. As of November 3, 2004, Mr. Sampson beneficially owned approximately 1,608,000 shares. Mr. Sampson has designated a target price for the sale shares covered by the 10b5-1 Plan. If the CSI stock is not trading at or above the target price, the shares may not be sold.

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 August 5, 2004, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission, reporting under Item 9 its second 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: November 15, 2004

/s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: November 15, 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 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: November 15, 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 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: Novemner 15, 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 September 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: November 15, 2004

/s/ Curtis A. Sampson

Chief Executive Officer

Date: November 15, 2004

/s/ Paul N. Hanson

Chief Financial Officer